

# BDC Corporate Plan Summary

2015-16 to 2019-20



OPERATING BUDGET | CAPITAL BUDGET

The Corporate Plan Summary is based on the 2015-2016 to 2019-2020 Corporate Plan, as approved by the Governor in Council on the recommendation of the Minister of Industry.

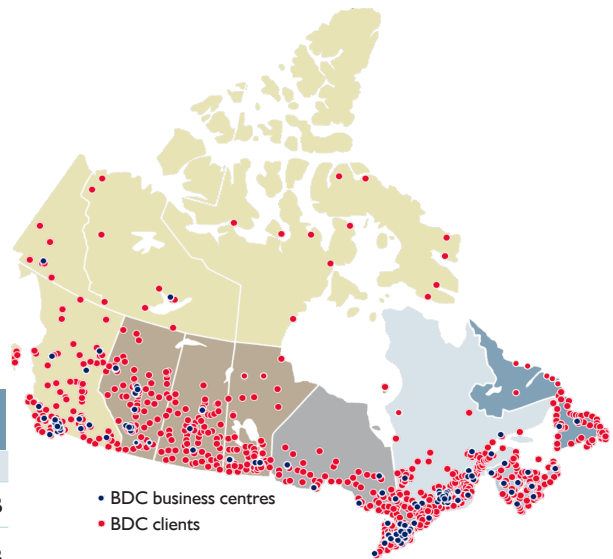
# Contents

BDC PROFILE	page 4
OPERATING ENVIRONMENT	page 6
EXECUTIVE SUMMARY	page 8
HOW BDC HELPS ENTREPRENEURS	
Informing, inspiring and celebrating	page 10
Making it easy to do business	page 10
Reaching entrepreneurs across Canada	page 11
Getting businesses up and running	page 12
Turning challenges into opportunities	page 14
Helping entrepreneurs up their game	page 15
BDC/EDC products and services	page 21
DOING MORE TO SUPPORT ENTREPRENEURS	page 22
Helping to improve competitiveness	page 23
Facilitating greater access to capital	page 27
New powers under the BDC Act	page 29
SUMMARY OF INITIATIVES	page 30
PERFORMANCE MEASURES	page 31
INDEX OF PARTNERS/BUSINESS RELATIONSHIPS	page 32
APPENDICES TO THE CORPORATE PLAN	
Appendix A: Governance	page 34
Appendix B: Risk Management	page 38
Appendix C: Future Performance Measures	page 40
FINANCIAL PLAN	page 41
Appendix A to the Financial Plan	page 60
Appendix B to the Financial Plan	page 63

DATA ARE AS AT MARCH 31, 2014, UNLESS OTHERWISE NOTED

**BDC profile:** For 70 years, a steadfast supporter of Canadian entrepreneurs

	<b>ASPIRATION</b> To be a leader in making Canadian entrepreneurs the most competitive in the world						<b>2,000</b> employees	<b>\$19.6B</b> assets	<b>\$206M</b> dividends paid since 2009
	BC & North	Prairies	Ontario	Quebec	Atlantic	Total			
Business centres and offices	14	17	31	26	13	101			
Clients <sup>1</sup>	3,805	5,190	8,345	11,481	3,906	32,727			
Loans/investments <sup>2</sup>	\$2.4B	\$4.0B	\$5.8B	\$7.1B	\$1.9B	\$21.2B			

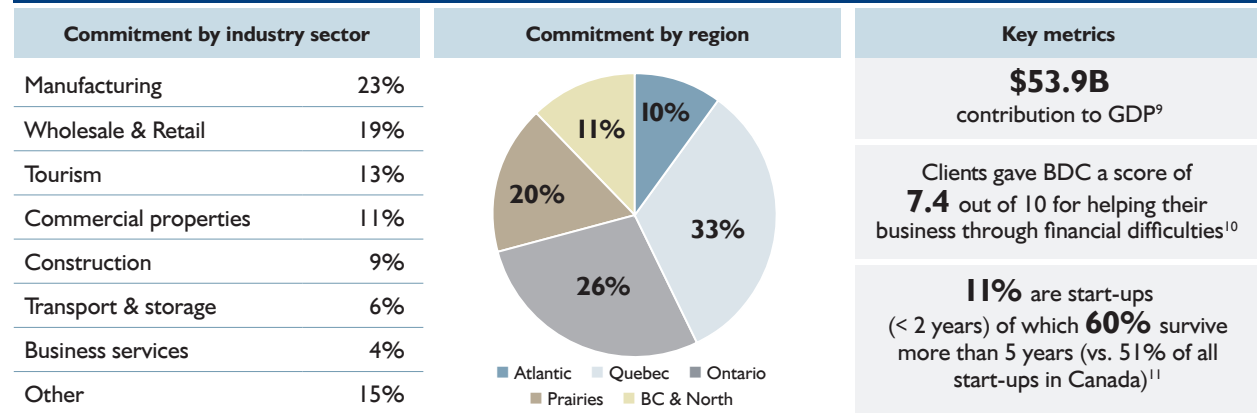
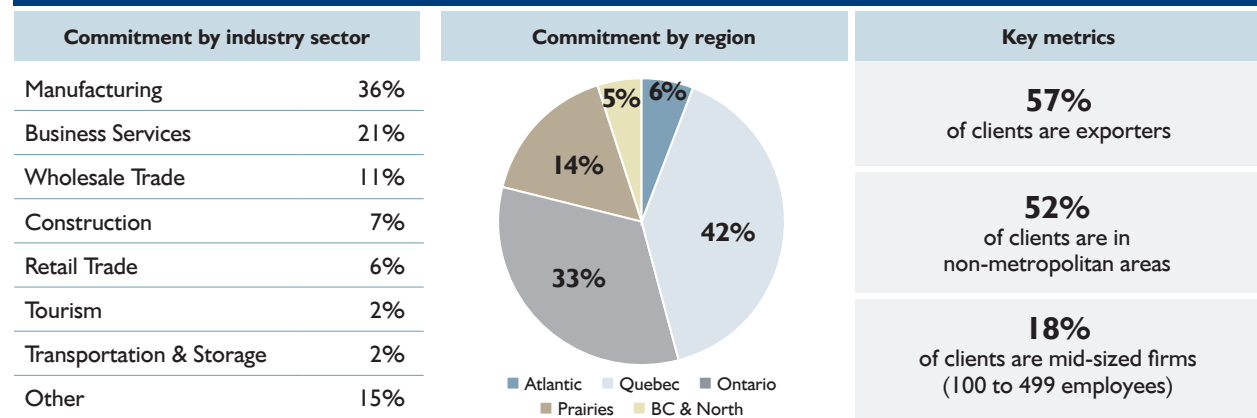
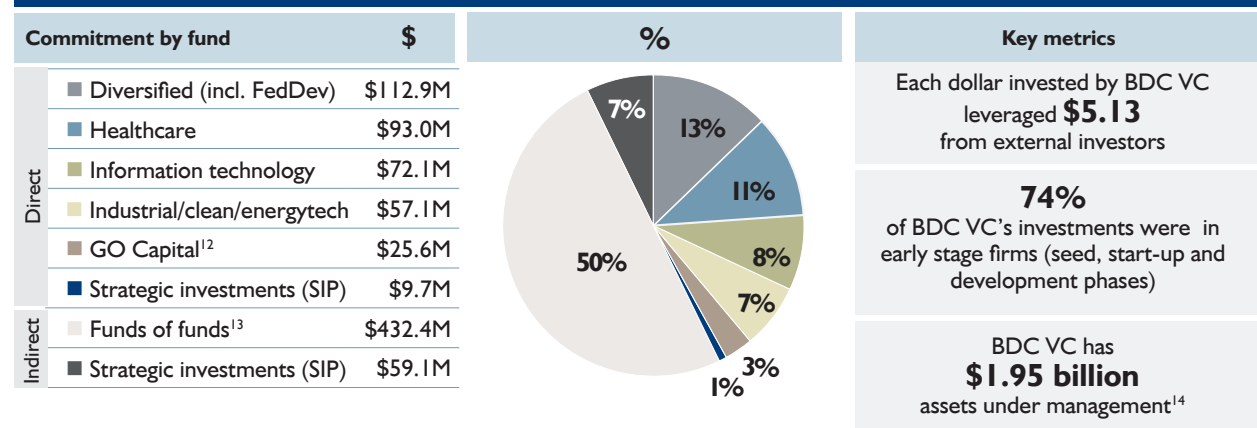
**75%** of clients have fewer than 20 employees**18%** of clients are exporters**5,701** are first-time clients (Financing and Growth & Transition Capital)**94%** of BDC's portfolio is sub-investment grade<sup>3</sup>**80%** of clients said BDC had an overall positive impact on their business<sup>4</sup>**7,417** Canadian SMEs receive indirect support from BDC<sup>5</sup>**Economic impact of BDC's clients**

	2012	2013	2014
Annual revenues generated by BDC clients	\$176B	\$192B	\$200B
Estimated annual export revenues generated by BDC clients	\$21.6B	\$22.7B	\$21.9B

**BDC Business Lines**

Financing	Growth & Transition Capital	Venture Capital	Consulting	Securitization
Term loans with flexible repayment schedules <b>\$17.7B</b> outstanding <b>\$19.7B</b> committed	Cash flow, mezzanine, quasi-equity and equity solutions for growth and transition projects <b>\$601M</b> outstanding <sup>6</sup> <b>\$636M</b> committed <sup>6</sup>	Direct and indirect equity investments in multiple sectors <b>\$535M</b> outstanding <sup>7</sup> <b>\$862M</b> committed <sup>7</sup>	Affordable business consulting, planning and management solutions <b>2,505</b> mandates in 2014	Debt financing that relies on the pooling of illiquid assets (under F-PIL <sup>8</sup> ) <b>\$336M</b> ABS outstanding <b>\$530M</b> committed

<sup>1</sup> # of Financing, Growth & Transition Capital, Consulting and Venture Capital clients and funds<sup>2</sup> \$ committed for Financing, Growth & Transition Capital and VC clients and funds, excluding inactive companies<sup>3</sup> Sub-investment grade, which is rated BB+ or less, relates to BDC's Financing portfolio in \$ outstanding<sup>4</sup> Based on the Survey on BDC's image, role and impact, October 2014<sup>5</sup> Through securitization and venture capital<sup>6</sup> Includes both BDC and non-controlling interests<sup>7</sup> Includes \$15.1M invested in 31 inactive companies<sup>8</sup> F-PIL = Funding Platform for Independent Lenders

**DATA ARE AS AT MARCH 31, 2014, UNLESS OTHERWISE NOTED****Financing commitment: \$19.7B****Growth & Transition Capital commitment: \$636M****Venture Capital commitment: \$370M in direct investments and \$492M in indirect****Consulting**

Clients gave BDC Consulting a score of **7.5** out of 10 for understanding entrepreneurs' needs<sup>10</sup>

**Securitization**

**7,012** SMEs have benefited indirectly from BDC's role in the securitization market

<sup>9</sup> Based on Statistics Canada input/output model results of direct and indirect economic activity generated by clients who were financed by BDC in fiscal 2014

<sup>10</sup> Based on the Survey on BDC's image, role and impact, October 2014

<sup>11</sup> Industry Canada, The State of Entrepreneurship, February 2010

<sup>12</sup> Includes GO Capital 100% consolidation in BDC

<sup>13</sup> Excludes BDC investment in GO Capital due to consolidation

<sup>14</sup> Assets under management represents total committed capital of active portfolios, including anticipated commitments

# Operating Environment

BDC's Corporate Plan is based on the following economic observations and assumptions

## The global context

- > Modest acceleration of the global economy is expected in coming years.
- > Crude oil prices have fallen by more than 55 percent since June 2014 due to oversupply. This will negatively impact countries that are net oil exporters and will reduce business investment in the oil sector.
- > While lower oil prices are expected to stimulate global economic growth overall, they will widen the differences among economies.
- > In the Euro area and Japan, growth is forecast to remain weak. However, in the U.S., the expansion of the economy should continue:
  - the drop in oil prices will be a net benefit to consumers
  - the housing sector is reviving
  - job creation is strong, however, long-term unemployment and involuntary part-time employment levels remain elevated
  - consumers have reduced their debt levels
  - the federal budget deficit has been brought to a more sustainable level

## Global and selected regional growth forecasts

	Share of global GDP (%)	Real GDP growth (%)			
		2013	2014e	2015f	2016f
World	100	3.3	3.3	3.5	3.7
United States	16	2.2	2.4	3.6	5.3
Euro area	12	-0.5	0.8	1.2	1.4
China	16	7.7	7.4	7.0	6.9
Japan	5	1.6	0.1	0.6	0.8
Canada	1	2.0	2.4	2.1	2.4
Rest of the world	50	3.0	2.9	3.1	3.4

Source: International Monetary Fund and Bank of Canada, January 2015, e = estimate; f = forecast

GDP shares are based on International Monetary Fund (IMF) estimates of the purchasing-power-parity (PPP) valuation of country GDPs for 2013 from the IMF's October 2014 World Economic Outlook. This update has increased the weight of China and the rest of the world, which in turn has revised up World GDP growth by approximately 0.1 percentage point relative to the July Report.



## The Canadian context

### Economic growth

- > A more robust U.S. economy should continue to benefit Canadian exports. Therefore, export-driven industries are expected to perform better, supported by stronger global growth and a lower Canadian dollar. However, competition from emerging economies and loss of export capacity mean that Canadian exports to the U.S. should continue to underperform relative to past recovery periods.
- > The manufacturing sector has not reached its pre-recession output level and continues to face stiff competitive pressures; a lower Canadian dollar will be beneficial but being more innovative and productive will remain an imperative.
- > In January 2015, the Bank of Canada estimated that the lower price of oil will take one-third of a percentage point off Canadian GDP growth in 2015. Oil-producing provinces would be negatively affected, while other regions, such as those more concentrated in manufacturing, would benefit from a lower Canadian dollar. If the price of oil remains depressed for an extended period, this will likely reduce investments by major oil producers, which would affect their suppliers negatively.
- > Overall, economic conditions in Canada are sound but long-term economic growth potential is expected to be weaker than before the recession at slightly more than 2 percent annually, due to an aging population and lagging productivity.

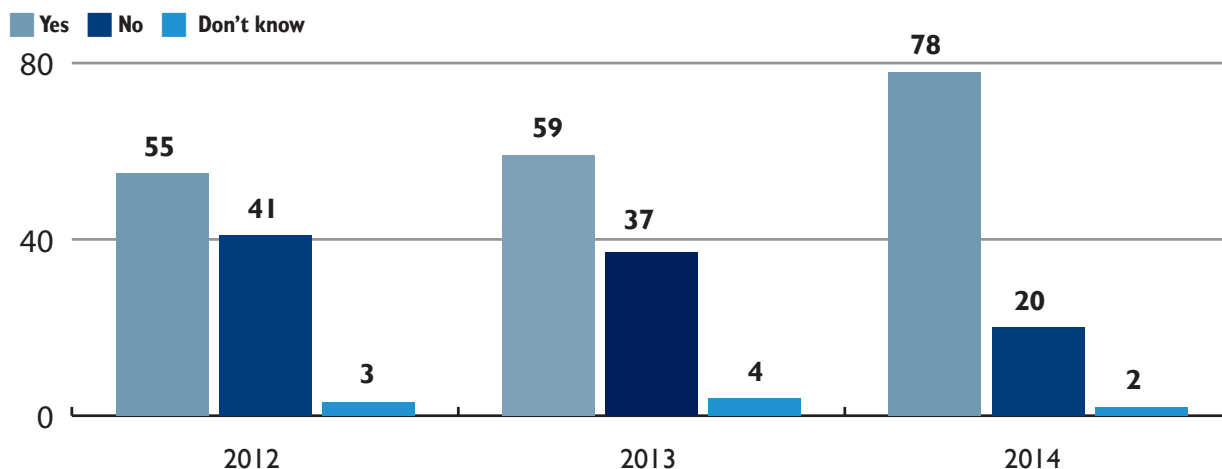
### Credit conditions

- > Credit conditions should remain favourable to Canadian businesses.
- > However, based on Statistics Canada's "Survey on Financing and Growth of Small and Medium Enterprises", roughly 16 percent of SMEs—and almost one in four manufacturers—believe that difficulty accessing financing is an obstacle to growth.
- > Generally, firms with fewer physical assets, that are more innovative, or that are start-ups have the most difficulty accessing financing.
- > The Governor of the Bank of Canada warned in December 2014 that credit for new and small businesses could be negatively affected as banks adjust to tougher regulations.

### Business investment

- > Improved export opportunities should lead to more business investment in the near term; a BDC survey shows investment intentions among SMEs have picked up over the past two years.
- > The Canadian Federation of Independent Business (CFIB) reported that optimism among SMEs was negatively affected by lower oil prices in December 2014.

Does your company expect to invest in new projects within the next 12 months?



Source: BDC Viewpoints, Business Investment Planning Survey, September 2014

# Executive Summary

Canada's small and medium-sized businesses contribute significantly to the economy: they account for almost three-quarters of private-sector employment and more than half of gross domestic product in the private sector.

The Business Development Bank of Canada (BDC) helps to ensure that Canada continues to benefit from its small and medium-size enterprises (SMEs). It does so by providing entrepreneurs with financing, investments and advisory services, paying particular attention to SMEs that face market gaps, in accordance with its complementary role.

As a pan-Canadian Crown corporation, BDC strives to be visible in communities across the country, including non-urban centres. To accomplish this, BDC works with public- and private-sector partners, including other financial institutions, private-sector investment funds and technology accelerators. BDC also provides educational resources and celebrates the accomplishments of Canadian entrepreneurs, including through four new awards announced in Economic Action Plan 2013.

The report on BDC's "10-Year Legislative Review: 2001-2010", tabled by the Minister of Industry in June 2014, found that BDC meets its mandate of supporting Canadian entrepreneurs while playing a complementary role in the market. The review resulted in recommendations aimed at ensuring BDC continues to meet its mandate and changes to the

*Business Development Bank of Canada Act* that will better enable BDC to support entrepreneurs.

Over the planning period, BDC will continue to fulfill its role so that Canada can benefit from a strong entrepreneurial ecosystem.

At the same time, there is a pressing need for Canadian SMEs to become more competitive through innovation, productivity, growth and internationalization. This is where BDC also has an important role to play. As part of Digital Canada 150, BDC leverages its expertise and resources to help SMEs innovate and increase efficiency. It plays a pivotal role in the innovation economy, including implementing several government priorities such as the Venture Capital Action Plan (VCAP). It assists SMEs that make significant contributions to the economy, such as high-growth firms and SMEs in specific sectors, including aerospace. Plus it helps to ensure that promising firms have the opportunity to grow, explore new markets and become the next generation of Canadian champions.

Now, BDC believes it is important to do more to enable Canadian entrepreneurs to make an even greater contribution to the economy. It will accomplish this by building on existing strategies and proposing new initiatives to facilitate access to capital and advisory services and help SMEs become more competitive.



## Financial Plan Highlights

BDC Financing plays an important role in facilitating access to capital for entrepreneurs and supporting the competitiveness of SMEs. Over the planning period, it will work to ensure that it is accessible to entrepreneurs across Canada, with a focus on increasing its support to SMEs in Ontario and Western Canada. To reflect these efforts, BDC Financing has increased its forecast for acceptances and the portfolio is forecast to grow to \$20.4 billion in fiscal 2016. Net income is expected to increase to \$458 million in fiscal 2016.

BDC believes that entrepreneurs need to take advantage of professional, qualified advisory services to grow, innovate and create efficiencies. This is why BDC Consulting is investing in advisory services that will maximize impact on the competitiveness of Canadian entrepreneurs. Annual revenues for BDC Consulting are forecast to increase to \$19 million in fiscal 2016. Net losses are expected to remain stable in fiscal 2016, reflecting improved efficiencies and cost recovery.

BDC Growth & Transition Capital addresses the needs of Canada's fastest-growing companies and of firms in transition. The forecast for acceptances is in line with last year, which should bring the portfolio at fair value to \$732 million in fiscal 2016. Due to growth in the portfolio and improved efficiency, net income will increase to \$34 million in fiscal 2016.

BDC Venture Capital will build on its existing strategy and address evolving needs in the market by supporting a variety of companies and looking

for opportunities for early and late-stage investing. Largely as a result of increased activity in direct investing, the forecast for authorizations is higher than last year. BDC VC's forecast for net income has improved from last year's Corporate Plan, with a net loss of \$14 million expected in fiscal 2016. The portfolio at fair value is forecast to increase to \$668 million in fiscal 2016.

In the Venture Capital Action Plan, BDC expects to incur a net loss of \$21 million in fiscal 2016.

To help some of Canada's most promising firms contribute fully to the economy, BDC is proposing the gradual implementation of a new initiative that will facilitate access by these "high-impact" firms to the best solutions available. As an investment in SME competitiveness, the initiative will be funded from retained earnings.

Even with these important investments in Canada's entrepreneurs, BDC remains financially sustainable. BDC consolidated net income is expected to be \$423 million in fiscal 2016. In fiscal 2016, BDC is forecasting dividend payments of \$60 million.

BDC's 10-year moving average return on equity is expected to remain stable in fiscal 2016. The BDC Financing reported efficiency ratio is forecast to be 38.7 percent in fiscal 2016, where a decrease in the ratio represents improved efficiency. This reflects an improvement in efficiency compared to fiscal 2007, where BDC spent 50.6 cents to generate a dollar of revenue.

## Informing, inspiring and celebrating

A healthy entrepreneurial ecosystem is critical for Canada's economic well-being. BDC reinforces this ecosystem by raising awareness of entrepreneurship, offering information and resources, supporting early and seed stage investment groups, and celebrating and inspiring entrepreneurs.

In Economic Action Plan 2013, the government asked BDC to draw on its experience with the Young Entrepreneur Award program to create and administer a new awards program. In January 2014, BDC launched the BDC Entrepreneurship Awards, recognizing the contribution of entrepreneurs to the Canadian economy in the areas of mentorship, innovation, resiliency and serial entrepreneurship.

In line with Economic Action Plan 2013, the objectives of these awards are to promote and celebrate Canada's entrepreneurial culture while inspiring Canadian entrepreneurs to innovate, take risks and grow their businesses.

The BDC Mentorship Award, presented by Futurpreneur Canada, was awarded in May 2014 to Ryan C. Jackson of Medicine Hat, Alberta. This award recognizes an outstanding Canadian mentor who has

contributed to the success of his/her mentees.

The BDC Innovation Award, presented by the Canadian Venture Capital & Private Equity Association, was awarded in May 2014 to Mirametrix of Montreal. This award recognizes Canada's most innovative start-up company that has reshaped its industry in exciting and unforeseen ways.

The BDC Resiliency Award, presented in partnership with the Turnaround Management Association, was awarded during BDC Small Business Week in October 2014 to Superior Cabinets of Saskatoon. This award recognizes a Canadian business that has successfully undergone a restructuring or pivotal turn of events in the past year.

The fourth award, the BDC Entrepreneurship Champion, recognizes a Canadian entrepreneur who has created and grown many successful smaller businesses over the years, making a substantial contribution to the Canadian economy. The winner of this award will be selected by an advisory committee of Canadian business leaders and key influencers and announced in 2015.

## Making it easy to do business

It is important to reduce "red tape" for business owners to help them save time and money. BDC continuously looks for ways to improve the client experience, for example, by reducing disbursement times and by making loan applications available online. BDC's website, BDC.ca, has been improved over the past few years to make it more intuitive and navigable for entrepreneurs.

BDC's Agility and Efficiency (A&E) program also has improved the client experience. It started with exploring how employees could devote more time to clients and less time to process. In fiscal 2015, the centrepiece of A&E, the core lending solution, replaced older systems and is now fully operational. By transforming BDC's processes, it allows for better automation, easier assignment of tasks, faster processing times and more efficient service for clients.

# Reaching entrepreneurs across Canada

BDC's financing, investments and advisory services are accessible through more than 100 locations across the country. BDC currently supports over 32,000 clients directly—and more than 7,400 indirectly—about 20 percent of whom reside in rural or remote areas. Ninety-six percent of BDC's clients have fewer than 100 employees and in fiscal 2014 they generated approximately \$200 billion in revenues, including \$22 billion in export revenues.

To ensure that it is able to help entrepreneurs across Canada, BDC frequently reviews the number and location of its offices (see page 27 for more information). In rural markets, BDC works with Community Futures Development Corporations (CFDCs). Out of 268 CFDCs across the country, BDC has partnership agreements with 236, including in Canada's North. From fiscal 2013 to 2014, there was a 74 percent increase in deals done in partnership with CFDCs.

In fact, BDC relies on the expertise and cooperation of a variety of organizations from the public and private sectors to increase its reach and accessibility (please see the Index of Partners/Business Relationships on page 32). For example, in its work to re-energize the venture capital ecosystem in Canada, BDC works with accelerators and angel investor groups, which are dedicated to helping promising technology companies get off the ground.

An effective online presence is another way BDC increases its reach. Recognizing that the adoption of web technology is at an all-time high among entrepreneurs, BDC wants to optimize its use of online channels to increase its presence and provide more value to SMEs. This involves developing the ability to support entrepreneurs online in real-time and publishing value-added content that helps entrepreneurs solve various business challenges.

## A complementary approach

Working with financial institutions allows BDC to increase credit availability for SMEs while playing its complementary role.

In fiscal 2014, BDC launched a pilot program for asymmetric lending, where BDC's terms and conditions differ from those of the other lenders in the transaction. This results in BDC taking a greater share of the risk and helps to ensure that the entrepreneur receives the financing. It differs from *pari passu* lending, where terms and conditions for each lender are equal. As at September 30, 2014, BDC had authorized \$28 million in 26 asymmetric financing transactions. As part of the pilot, BDC is partnering with financial institutions across Canada.

Loan guarantees are another way in which BDC can improve access to financing. BDC is currently exploring the potential of offering loan guarantees, where BDC would repay a debt obligation to the lender if the borrower defaults.

To help larger, growing companies access financing, BDC offers subordinated financing solutions in conjunction with other lenders and participates in bigger transactions through syndication.

To ensure ongoing collaboration and complementarity with financial institutions, BDC executives participate in the Lending Practitioners Forum, an initiative spearheaded by the Canadian Bankers Association that involves the major chartered banks and Export Development Canada (EDC). BDC also participates on the board and committees of the Canadian Venture Capital & Private Equity Association and works closely with Credit Union Central of Canada.

# Getting businesses up and running

Typically, start-ups and small businesses find it difficult to access financing as they often lack management experience and collateral. Many also cannot afford or access advisory services that could help their business grow and succeed. To address these market gaps, as a complementary lender BDC offers tailored financing products, which are often small loans of less than \$500,000, and advisory services.

BDC's commitment to small businesses is paying off, with 8,010 small loans authorized in fiscal 2014, well above the target of 6,500. BDC also helped 1,519 start-ups in fiscal 2014, exceeding its corporate target of 1,400. For fiscal 2014, BDC's median loan size was \$100,000, another indicator of its dedication to small loans and small business.

BDC also helps some of Canada's most promising technology firms get up and running through venture capital (VC) and by working with accelerators and angel investor groups. More on BDC's VC activities can be found starting on page 15.

## Young entrepreneurs

Young entrepreneurs often cannot access traditional financing due to a lack of experience and collateral. BDC works with Futurpreneur (formerly the Canadian Youth Business Foundation) to match financing and can provide up to \$30,000, twice that provided by Futurpreneur. As at March 31, 2014, BDC's commitment under this alliance was for \$21 million to 969 young entrepreneurs.

BDC has helped develop and promote mentoring-focused "crash courses" on Futurpreneur's online business resource centre. These interactive modules provide in-depth, self-guided learning for both the

mentor and the young entrepreneur. For Futurpreneur, a measure of success is how many of its entrepreneurs can access traditional financing.

BDC is involved in other programs for young entrepreneurs:

- > Junior Achievement (JA)—BDC supports JA financially to develop and launch the "Be Entrepreneurial" program, which promotes entrepreneurship to Canadian youth
- > Vanier College BDC Business Case Challenge—a national business case competition for pre-university students
- > Enactus—BDC renewed its contribution to Enactus through a three-year commitment of \$50,000 annually. The BDC Entrepreneurs First Project will award \$2,500 each to six Enactus teams to implement projects in their communities that accelerate the success of entrepreneurs. Since 2011, 244 students have been involved

## Aboriginal entrepreneurs

Aboriginal entrepreneurs can have difficulty accessing financing and advisory services as they often lack experience and can have challenges in offering collateral. BDC supports Aboriginal entrepreneurs through:

- > Growth Capital for Aboriginal Business—flexible term loans of up to \$25,000 for new businesses and up to \$100,000 for existing businesses.
- > Aboriginal Business Development Funds—a program that provides funds through a community-based organization. BDC has committed \$1 million to four funds that are delivered at the grassroots level in various regions of Canada.

### BDC support for small business as at March 31, 2014

# of start-ups <sup>1</sup> served over past 10 years	13,457
\$ authorized for small businesses <sup>2</sup> over past 10 years	\$27B
\$ authorized for start-ups over past 10 years	\$4.2B
# of BDC Entrepreneurship Centres serving small businesses	21

<sup>1</sup> Defined as businesses <2 years old; <sup>2</sup> Defined as having 1-99 employees

- > Consulting—Aboriginal entrepreneurs have identified mentoring and improved management skills as priorities. BDC Consulting draws on experienced Aboriginal consultants to deliver entrepreneurial training for Aboriginal entrepreneurs.
- > E-Spirit—a national Aboriginal business plan competition sponsored by BDC for Aboriginal youth in grades 10 to 12. Since 2001, E-Spirit has introduced over 6,500 students to entrepreneurship.

In the spirit of complementarity, BDC's Aboriginal banking unit works closely with Aboriginal financial institutions across Canada to help ensure access to financing and partners with Aboriginal Affairs and Northern Development Canada (AANDC) to provide debt financing to First Nations businesses across Canada with assets on a reserve. This reduces the impact of one of the main impediments to First Nation business development: Section 89 of the Indian Act that prohibits use of personal or real property on reserve land as collateral.

BDC's Aboriginal banking unit has expanded to include more specialized account managers across Canada. Whether for financing or advisory services, Aboriginal entrepreneurs deal consistently with a specialist from the unit. As at March 31, 2014, BDC's commitment to Aboriginal businesses was \$188.1 million to 301 clients.

## Immigrant entrepreneurs

For newcomers to Canada with international business experience, self-employment is a way to contribute to the economy. In a September 2014 survey

of more than 1,200 existing and former BDC clients, 50 percent of respondents who identified themselves as immigrants said financing from BDC helped them create employment. However, immigrants often lack access to the information and resources needed to start a business.

Entrepreneurship Connections, a program helping Greater Toronto Area immigrants start their own business, was launched in 2011 through a partnership between ACCES Employment and BDC. The four-week program helps immigrants learn about the Canadian market, including legal and regulatory requirements and potential sources of finance. Participants receive coaching, learn to write a business plan and are paired with a mentor in the Canadian market. BDC is working with community partners to establish similar programs.

## Social purpose firms

BDC supports "social purpose" firms through pilot projects in Quebec, Ontario and British Columbia and by building relationships with organizations across Canada that work with these firms. The business models and plans of social purpose companies include the creation of a social or environmental value. Many of these firms seek certification as a Beneficial corporation (B Corp), a new certification similar to LEED for green buildings or Fair Trade for coffee. Certified B Corps (a group of 1,200 firms in 35 countries) must meet comprehensive standards related to purpose, transparency and accountability. BDC achieved this designation in 2014—the first Canadian financial institution to do so.

## Financing cooperatives

Where appropriate, BDC finances SMEs operating under a cooperative structure. As at September 2014, BDC had provided financing to 38 for-profit cooperatives across Canada, with the largest number

of clients in Nunavut, Quebec and New Brunswick, and also provided advisory services to nine cooperatives. In Quebec, BDC collaborates with Capital Réseau and Coop Essor to increase and simplify access to financing for co-ops.

# Turning challenges into opportunities

## Sectors with unique needs

Businesses in some sectors can have more trouble than others accessing financing because they represent higher risk; they are seasonal or cyclical or simply experience greater competitive pressures. Examples include manufacturing, retail and tourism, which constitute the three largest sectors in BDC's portfolio. These sectors contribute significantly to the local, regional and national economies. For the most part, BDC can address sectoral needs with existing solutions. BDC will continue to identify, both nationally and regionally, sectors where it can make a difference and play its complementary role.

For example, aerospace is a sub-sector of the manufacturing industry that is important for the economy and that requires specialized financing and advisory services. BDC believes it can support this sub-sector by assisting SMEs that supply the big aerospace companies. These SMEs need funds to secure their place on an aircraft program, often as part of a global value chain, and operate during a production period that can last up to 50 years. Patient and flexible capital is needed for large upfront investments but is difficult to find for SMEs with little security to offer.

BDC has increased its expertise in the sector to better help SMEs, including clients in the BDC portfolio and potential clients that BDC identifies by work-

ing with large aerospace firms. BDC supports these SMEs on a case-by-case basis with solutions suited to the challenges of the sector. BDC participates in the supplier development program being conducted by the Aerospace Industries Association of Canada and works with Export Development Canada (EDC) to offer complementary solutions that help aerospace SMEs grow and diversify their client base.

## Helping firms turn it around

BDC plays an important development bank role by working with clients who are facing challenges to support the turnaround of their business. BDC's special accounts team and business restructuring unit focus on diagnosing the root of the problem; provide expertise and advice to help entrepreneurs develop a turnaround plan and assess the plan; provide support and monitoring during the execution phase; and propose, where appropriate, financing options adapted to each situation.

As at September 30, 2014, 84 percent of the loans managed by the special accounts team and business restructuring unit had the potential to be sent back to regular BDC operations.



# Helping entrepreneurs up their game

## Innovation

For SMEs with limited money, expertise and time, it can be difficult to take advantage of information and communications technologies (ICT). BDC helps entrepreneurs learn about and incorporate ICT into the business, while supporting firms that create ICT.

Since the launch of BDC's ICT strategy in October 2011, BDC has met or exceeded corporate performance expectations in terms of visits to its dedicated website Smart Tech, uptake of free educational resources, and numbers of ICT loan authorizations and advisory service mandates. As part of the strategy, BDC reaches out to organizations across Canada to spread the word about the benefits of ICT.

In support of Digital Canada 150, BDC has committed to provide \$200 million in loans annually until 2017 to help entrepreneurs apply ICT to their operations and support companies that create ICT; and \$300 million in venture capital by 2017 for companies that create ICT.

As at December 31, 2014, BDC clients had accepted \$190.7 million in ICT loans and BDC had authorized \$91.4 million in VC in the ICT sector through direct and indirect investments.

## Venture capital—fuelling innovation

Innovation involves creating the technologies that lead to new products and services. Much of this work is pursued by smaller firms, many of which struggle to find venture capital (VC). This is partly because, in recent years, Canadian VC investors have not realized the returns they require for these high-risk investments.

Recognizing that the market had ceased to function effectively, BDC Venture Capital decided to take

an active role through direct and indirect investing, complemented by strategic partnerships and investments. Today, BDC VC is one of Canada's largest and most active institutional players in the market. BDC VC has been recognized for its investment expertise, winning the Canadian Venture Capital Association Deal of the Year in four of the past six years. BDC VC currently participates in more than 15 percent of deals annually and, through indirect investing, is a limited partner (LP) in funds representing 66 percent of dollars invested in the Canadian VC market.

## BDC VC's strategy in action

### Direct investing in companies

Since the inception of the strategy in fiscal 2012 to September 30, 2014, BDC VC's three internal funds have disbursed \$165 million to 63 companies, with \$266 million currently committed.

### Indirect investing in funds

This team has executed well even though the number of institutional investors has continued to decline. Since fiscal 2012, the team has disbursed \$145 million to 26 private-sector funds, with \$436 million currently committed. BDC's indirect investing team also keeps Canadian general partners (GPs) up to date on best practices.

### Strategic Investments and Partnerships

Strategic Investments and Partnerships (SIP), formerly Strategic Initiatives and Investments, reinforces the ecosystem with direct and indirect investments, for example, through accelerators and convertible notes. Since fiscal 2012, SIP has disbursed \$14 million to 87 companies via six accelerators, with \$11 million committed; and \$20 million to 11 indirect investments, with \$64 million committed.

**BDC VC's accelerator partners**

SIP supports emerging models and GPs and has established partnerships with groups such as C100, the National Angel Capital Organization, and the Canadian Technology Accelerator program, which acts as a bridge to global markets for Canadian technology companies.

**Diversified portfolio**

Of the 113 companies originally in the portfolio, 92 have exited, generating \$55 million in proceeds. BDC VC continues to work with the remainder to help them realize their potential.

**Market dynamics**

There have been positive developments in the VC market, but challenges remain, including:

- > Fundraising for Canadian GPs—a shortage of LPs in the Canadian market has made it difficult for both established and emerging fund managers to close their funds with an adequate amount of investment. The Venture Capital Action Plan (VCAP) should help in this regard.
- > Late-stage funding gap—although there has been significant momentum in VC investments, there

remains little capacity for later-stage investment, which has encouraged U.S. VC firms to enter the Canadian market to take advantage of strong later-stage opportunities.

- > Imbalanced VC ecosystem—new fund models and emerging managers raising small funds of less than \$50 million are changing the landscape. This could result in early stage capital not being sufficiently balanced by later-stage capital.
- > Uneven sector momentum—while the information technology sector has seen a blossoming of VC fund managers and funding primarily at the early stages, companies in the industrial and clean energy sector, as well as in health care, face significant funding gaps. At the same time, promising new clusters of sectors and firms are emerging.

**Venture Capital Strategic Investment Plan (VCSIP)**

Under Economic Action Plan 2013, the government asked BDC to invest \$100 million of its own capital in strategic partnerships with business accelerators and co-investments in graduate firms. To fulfill this

priority, BDC VC's SIP team is implementing the Venture Capital Strategic Investment Plan (VCSIP) by making direct and indirect investments that build on its work in support of the ecosystem.

A portion of VCSIP funding is also directed to ecosystem models and infrastructure that are the foundation for high-growth, technology-driven entrepreneurs and start-ups in innovation hubs across Canada, for example, Montreal-based Notman House. In this way, VCSIP enables the building of technology companies and broader connectivity within the startup community, facilitating the creation of future VCSIP investments and a more sustainable early stage innovation ecosystem.

Investments under VCSIP are complementary to support from the Canada Accelerator and Incubator Program (CAIP) and other government programs.

### **Venture Capital Action Plan (VCAP)**

Working closely with Finance Canada, BDC has made significant progress in operationalizing the Venture Capital Action Plan (VCAP), designed to help create a vibrant VC system in Canada, led by the private sector.

In January 2013, the Prime Minister announced that, under VCAP, a \$350-million contribution from the government would be used to leverage up to \$1 billion in private-sector capital to establish and re-capitalize large, private-sector funds of funds. VCAP also includes \$50 million for a few high-performing VC funds.

The government assigned a number of functions to BDC under VCAP, including:

- > serving in an advisory capacity to Finance Canada and Industry Canada by leveraging its internal expertise and resources to provide advice on specific elements of VCAP

- > serving as the LP of record for the government under VCAP, including carrying out such duties as signing the requisite paperwork, communicating with the GPs and other LPs, attending meetings and generally acting on behalf of the government
- > undertaking administrative duties including placing investments on behalf of the government and monitoring and reporting on the ongoing success of VCAP to help determine its overall impact on the economy

The first stage in executing VCAP took place with the selection of four high-performing funds in the IT and life sciences sectors that have demonstrated strong investment performance and are aligned with the objectives of VCAP.

The second stage of VCAP involved the selection of fund managers and negotiation of legal documentation surrounding the creation of new private-sector funds of funds. BDC expects that all four VCAP funds of funds will be closed by the end of fiscal 2015 and three will be in active investment mode before the end of March 2015.

BDC will continue to apply its usual rigour and high standards in its capacity as agent of the government and work proactively with the private sector to ensure VCAP plays the critical role for which it was designed.

### **Productivity**

Entrepreneurs must invest in the fixed assets and technology needed for operational efficiency, whether it be state-of-the-art equipment, new facilities to increase production capacity, or employee training. If SMEs boost productivity at the firm level, collectively these improvements can have a significant impact on the domestic economy.

BDC's information and communication technology (ICT) loans help SMEs improve productivity through technology. In addition, in June 2012, BDC launched a pre-approved Equipment Line that allows entrepreneurs to purchase new or used equipment over a 12-month period with guaranteed terms and conditions. The flexibility of this financing frees up cash for entrepreneurs. The fact that it is pre-approved is efficient and allows clients to act quickly when an opportunity arises. BDC finances up to 125 percent of an equipment purchase, including training or other such costs, while taking less security.

To further ease cash flows, BDC provides working capital to complement an SME's line of credit with another financial institution. BDC offers amortization periods suited to the project, seasonal or progressive repayments, and deferred principal payments.

BDC Consulting also helps SMEs through continuous process improvements, operational best practices, and defined performance indicators and objectives.

### Improving productivity with securitization

By partnering with private-sector financing companies in the securitization market, BDC improves the availability of financing and enables SMEs to purchase vehicles and equipment to support productivity.

A partnership announced in April 2010 between BDC and TAO Asset Management resulted in the creation of the Funding Platform for Independent Lenders (F-PIL) to ensure that smaller financing companies could provide financing for the vehicle and equipment needs of businesses and consumers.

The F-PIL's approach is built on:

- > using private-sector securitization techniques and funding creditworthy companies

- > deploying best practices around legal documentation, due diligence and transaction structures to increase confidence and improve private-sector funding
- > the requirement for a true risk-sharing arrangement between BDC, the company benefiting from the financing, and the private-sector partner, TAO
- > a commitment to participate in this market for a sustained period of time

As at March 2014, 7,012 SMEs had benefited indirectly from this program. BDC's role in the market also supports employment at auto dealerships in Canada.

BDC will continue to monitor and address needs that may arise in the securitization market to ensure liquidity for small financing companies and SMEs.

### Growing and exploring new markets

To create jobs and prosperity, Canada needs entrepreneurs with the desire and ability to grow their business. For SMEs, growth brings challenges that require unique financing and advisory services.

BDC Growth & Transition Capital, formerly BDC Subordinate Financing, offers cash flow, mezzanine, and quasi-equity financing to larger, more mature and growing firms with market traction, strong management and sound financial reporting. These financing solutions are particularly helpful for entrepreneurs who have few tangible assets to pledge for security and who don't want to dilute their ownership of the business. Where appropriate, BDC offers equity solutions by investing in a minority ownership stake of the company.

## BDC Growth & Transition Capital solutions

*Cash flow financing* is designed for companies that have a consistent track record of positive and strong cash flow and want to plan large-scale projects.

A *mezzanine loan* is debt financing that gives the lender the rights to convert to an ownership or equity interest in the company. It is subordinated to debt provided by senior lenders.

With *quasi-equity financing*, BDC shares the risk with firms that have not reached positive cash flow but forecast that they will generate strong cash flow in the near-term. This solution allows the firm to raise capital and repay the loan at the end of the term to keep cash in the business for daily operations.

With an *equity investment*, BDC takes a minority ownership stake in the company. As a development bank, BDC's interest is in working with management to create a growing, successful company capable of contributing to the economy.

The majority of BDC Growth & Transition Capital transactions are done alongside other financial institutions; BDC's security is subordinated to secured lenders, meaning chartered banks and long-term lenders are repaid first in the event of default. With BDC taking this additional risk, it helps to ensure that the entrepreneur can access the financing required. Since private-sector financial institutions tend to consider BDC's solutions as equity, this helps SMEs stay within prescribed covenants, including debt-to-equity ratios.

BDC has found that many entrepreneurs do not understand these types of financial solutions and their advantages, which led BDC to rename its subordinate financing group to highlight the ways in which it can help SMEs—with growth and transition projects. With 83 employees managing a portfolio of \$600 million and more than 400 clients, BDC Growth & Transition Capital has a pan-Canadian reach with an emphasis on underserved and non-urban markets. Its median transaction size in fiscal 2014 was \$900,000.

The portfolio has experienced strong growth since 2010 as it responds to a number of unmet needs:

- > most players in the market are active in deals above \$10 million, leaving few options for promising companies seeking quasi-equity

solutions in the \$2 to \$10 million range

- > asset-light businesses, such as service businesses and fast-growing firms, struggle to obtain sufficient financing
- > Canadian SMEs need to globalize but this involves higher risks and solutions beyond senior debt
- > access to capital for high-growth firms (HGFs) is challenged

## High-growth firms

In fact, subordinate financing is a powerful fuel for growth and is one reason why about 30 percent of clients in the BDC Growth & Transition Capital portfolio are HGFs (defined as annualized growth greater than 20 percent per year, sales or employees, over a three-year period, with 10 or more employees at the beginning of the period). These firms require non-traditional, higher-risk financing tailored to their cycle of fast growth, which can be followed by periods of slow or no growth.

In fiscal 2014, BDC authorized 46 transactions with HGFs, helping support employment for about 6,000 Canadians. It is strengthening its support through a pilot program that combines BDC's financial solutions with strategic advice from private-sector experts tailored to the needs of HGFs.

## Ownership transition

As many Canadian entrepreneurs approach retirement, BDC Growth & Transition Capital helps firms transition from one owner to the next through succession financing, which comprises about 40 percent of the portfolio.

BDC also helps Canadian entrepreneurs acquire companies that might otherwise cease operations or be bought by foreign interests. In these ways, BDC helps to ensure that Canadian firms remain in Canadian hands.

## Exploring new markets









































It is important for Canadian SMEs to internationalize, which involves looking for opportunities to export, joining a global value chain, or purchasing inputs from abroad. Through advisory services, BDC helps SMEs determine whether they are ready to internationalize and what markets would best suit them. BDC can also support internationalization projects with financing; in fiscal 2014, BDC authorized \$80 million to help SMEs expand abroad.

BDC works with Export Development Canada (EDC) and the Department of Foreign Affairs and Trade Development (DFATD) to help Canadian firms expand abroad, in line with the government's Global Markets Action Plan. In venture capital, BDC works with DFATD and the Canadian Trade Commissioners Service to support the Canadian Technology Accelerator (CTA) program, which helps Canadian high-growth companies access global markets.

BDC increases its knowledge of foreign markets by reaching out to development banks around the globe and by spearheading initiatives such as The Montreal Group and participating in groups such as QG100.



## Growing and exploring new markets: BDC/EDC products and services

	Solutions within Canada for non-exporters/investors		Solutions within Canada for exporters/investors here and abroad		Solutions outside Canada for foreign buyers of Canadian goods and services	
	BDC	EDC	BDC	EDC	BDC	EDC
<div>  = offered;             = not offered         </div>						
<b>Insurance and bonding</b>						
Contract insurance						
Foreign accounts receivable insurance						
Performance guarantees and surety bond reinsurance						
Political risk insurance						
<b>Financing</b>						
Summary of services						
Foreign buyer financing						
Guarantee bank facilities	 <sup>1</sup>		 <sup>1</sup>			
Supplier financing						
Working capital financing						
Commercial real estate financing						
Machinery & equipment financing						
Other capital assets financing						
Subordinate financing						
Financing to purchase or upgrade ICT						
<b>Equity/venture capital</b>						
Direct investment and via equity funds						
<b>Consulting/advisory services</b>						
Consulting (fee for service)						
Economic intelligence						
ICT diagnostic & consulting						
Trade advisory services, supply chain analyses & best practices (non-fee)				 <sup>2</sup>		

<sup>1</sup> Under the BDC Act, BDC can offer guarantees but currently is not actively doing so

<sup>2</sup> For existing EDC customers only

Note that this chart does not reflect changes as a result of the 10-year legislative review

# Doing more to support entrepreneurs

For Canada to get greater economic benefit from its small businesses, more of these companies must become competitive at home and abroad. BDC believes it can do more to improve the competitiveness of Canadian entrepreneurs, allowing them to contribute fully to the national economy.

Research shows that mid-sized and larger companies, particularly fast-growing ones, invest more, create more jobs, offer better wages and benefits, and are more likely to become exporters. A 2014 Harvard Business Review online article suggests that high-growth firms drive disproportionately more jobs, growth, value and sustainability. A 2014 report from Endeavor Insight, a U.S.-based organization dedicated to high-impact entrepreneurs, indicates that, on average, an SME that grows into a large business creates more than 200 jobs.

Given the global economic recession and a loss of competitiveness due to a steep increase in the value of the Canadian dollar prior to the recession, Canada lost more than 1,500 mid-sized firms from 2006 to 2010. Canadian exporters, in particular, were hit hard during the financial crisis. A 2013 report on productivity from Deloitte suggests that more Canadian start-ups “slow down or simply disappear, in part because many of our business leaders are not investing in activities required to sustain growth.”

In the World Economic Forum’s annual index, Canada slipped down the ranks of the world’s most competitive economies due, in part, to poor performance in innovation. In 2014, Canada ranked 15th out of 144 countries in competitiveness, down one position from last year and its lowest ranking since 2006. At the same time, the U.S. reversed its downward trend by rising two positions to fifth

place, fuelled by an extremely productive economy and sophisticated, innovative businesses.

The Canadian government has taken important steps, with a focus on innovation and the digital economy, an active global trade agenda, efforts to reduce “red tape” for smaller businesses, and other programs to support entrepreneurs. That said, gaps for services remain or are emerging, particularly for fast-growing companies in non-traditional industries where unique financing, investment and advisory solutions are required.

For example, SMEs in the services sector require specialized support, in part because they have few tangible assets to offer as security. SMEs looking to join global value chains need tailored financing and advisory services. Entrepreneurs need to better understand and have access to equity solutions, which are a powerful fuel for growth. BDC has found that the importance of advisory services for SMEs of all types cannot be overstated.

BDC has been an effective lever for government by improving access to financing, investments and advisory services for SMEs across Canada. It fulfills its mandate of supporting Canadian entrepreneurship and has a significant impact on the economy. Over the years, BDC has responded to government initiatives and priorities, including during the economic crisis. Within a strong management and governance framework, BDC is financially sustainable and complementary to the market. BDC has been profitable for 25 years and has paid \$206 million in dividends to its Shareholder since 2009.

Now, BDC is in a position to do more by helping entrepreneurs become more competitive and by facilitating access to capital.

# Helping to improve competitiveness

## Focusing on high-impact firms

A healthy SME ecosystem is critical for long-term competitiveness. While Canada has many of the right ingredients, its competitiveness has been eroding, especially when compared to the U.S. Some of the problem can be explained by challenges at the SME level and by the fact that many of Canada's most promising firms are not always able to reach their full potential.

In general, Canadian entrepreneurs demonstrate lower risk tolerance through less investment, which leads to lower productivity. This situation is worsened by difficulties obtaining higher-risk financing, particularly for service-based and knowledge-based firms. There is also a need for improved management capabilities, for example, due to a smaller domestic market, Canadian SMEs need to export sooner than their U.S. counterparts but often lack the skills and support to do so.

BDC is part of the solution. It already helps SMEs innovate, become more productive, and grow, both domestically and globally. However, for Canada to further strengthen its competitiveness, more must be done for those firms with the most potential to make a significant contribution. To address this, BDC is proposing the gradual implementation of a new initiative that will remove or lessen the barriers to competitiveness experienced by some of Canada's most promising firms.

To truly understand the needs and challenges of these firms, BDC conducted extensive research, including interviews with high-potential entrepreneurs and Canadian thought leaders, a survey of about 1,000 growing and mid-size SMEs across Canada and the U.S., and case examples from around the world.

### Challenges of high-impact firms

"We don't have the skills or the experience to check out and challenge the sales talent in the market"

—*Optics technology developer*

"I don't have time for strategic planning; where do we see this going over the next 7-10 years and how do we get there?"

—*Sports equipment distributor*

"My business has more demand than it can meet right now but I can't get the money to hire enough people, I just don't have the collateral"

—*Telecom company*

"I need someone who understands our business to help identify the right markets to enter and to give us an idea of how to get there and when to go"

—*Architectural services firm*

BDC found that, to have the most impact, support should be focused on larger, growing and ambitious firms, which have a disproportionate effect on economic growth. These “high-impact” firms account for about 5 percent of Canadian SMEs. They tend to be mid-sized (100 to 500 employees); grow more quickly than their overall sector; and have a management team that exhibits higher ambition and higher risk tolerance. However, there are no definitive parameters; smaller firms that show high growth could also fit the profile.

High-impact firms can be found in many sectors. They share barriers to competitiveness, including the need to:

- > optimize operations to improve efficiency
- > attract, develop and retain the talent required
- > develop and execute marketing and sales plans, including in foreign markets
- > find employees with technical skills
- > secure higher-risk financing for new products, services, and/or processes; acquire other companies; purchase machinery or technology to improve productivity; expand capacity
- > set the overall strategy of the company

In recent years, the government has taken significant steps to support these types of firms and the economic prosperity they represent for current and future generations of Canadians. Now, BDC proposes building on this foundation to become the “go-to” partner for these firms that otherwise might not be able to identify or find the support they need to succeed.

With a strong pan-Canadian network of partners and a deep knowledge of entrepreneurs and SMEs, BDC believes it is in a position to leverage its knowledge

and expertise to further support high-impact firms, which can be found among BDC’s existing clients and also identified through local networks, associations and professional services firms.

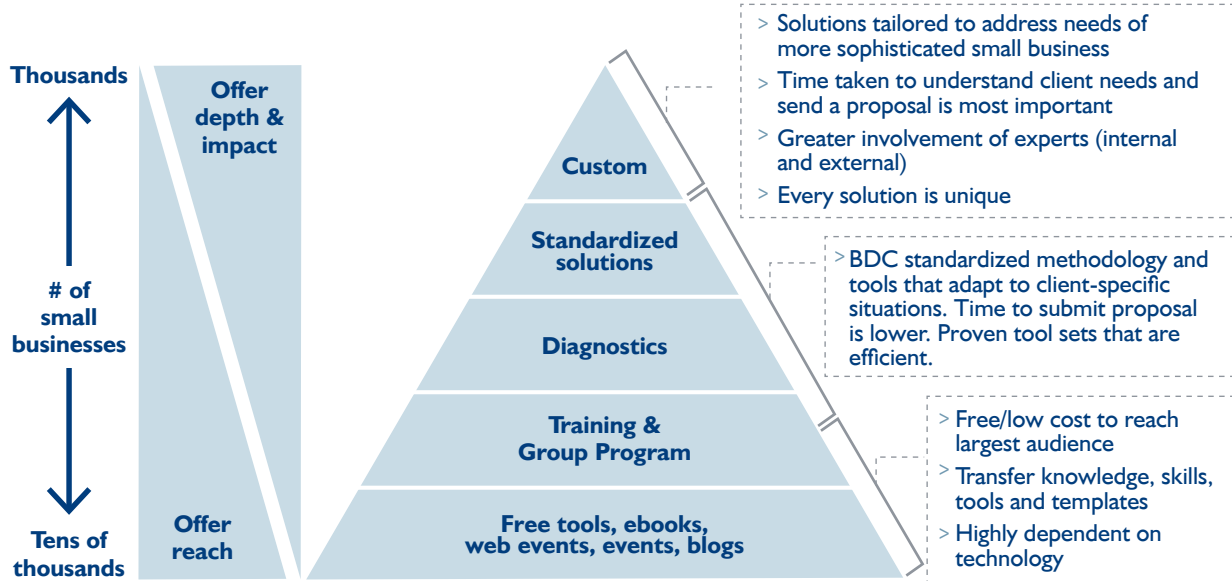
By working with both the public and private sectors, BDC will ensure that these firms can access the best solutions available at each stage of their development. BDC will provide these firms with dedicated advisors to accompany them over the long term, offering advice and facilitating access to various ecosystem solutions, whether from government programs, private-sector institutions including chartered banks, or from BDC’s own offering. These advisors will facilitate the development of new solutions if none currently exists and help the firm’s management build the skills needed to overcome barriers.

Creating this capacity to act as a “gateway” to a wide variety of solutions in the ecosystem would involve deepening relationships with key stakeholders, including Export Development Canada (EDC). While BDC would initially build this capacity for high-impact firms, it could eventually make it available throughout the bank, with a view to benefiting even more Canadian entrepreneurs.

As part of the initiative, BDC will develop specific success metrics, starting with the number of high-impact SMEs on-boarded, solutions delivered and by whom, and impact on the growth of SMEs compared to the SME’s plan.

This initiative is a significant one for BDC that will be funded from retained earnings. Once fully rolled out, it is forecast to have a positive impact on Canada’s economic growth by improving the ability of high-impact firms to innovate, become more productive, and to grow, ultimately becoming among the most competitive in the world.

## Advisory services solutions



## Strengthening competitiveness through advisory services

To help SMEs become more efficient and competitive, BDC is also transforming the way in which it delivers advisory services. BDC has found that smaller businesses have unmet needs for a broad range of these services and often have trouble identifying and addressing their own requirements. This can seriously impact the ability of these businesses to compete.

BDC also has learned that the most successful businesses use formal mechanisms such as advisory boards and consultants and that businesses that are proactive in seeking outside help to deal with challenges have better chances of remaining sustainable.

An October 2014 study from Waterloo-based Centre for Digital Entrepreneurship and Economic Performance examined a sample of Canada's fastest-growing small firms and found that a majority cited a lack of seasoned management talent as their number-one inhibitor of growth.

As a development bank, BDC's advisory services are complementary to the market in that they:

- > support the development of small consulting firms by partnering with them to offer services to SMEs
- > complement other consulting firms by offering a range of services aligned to the reality of SMEs
- > are offered to all types of entrepreneurs in every region, including rural Canada

In fiscal 2014, BDC began implementing a new approach to its provision of advisory services based on a desire to increase SME competitiveness by maximizing client impact while also improving internal efficiencies and responsiveness. A key element has been to reorganize around three teams:

1. Market-facing team—responsible for identifying client needs and proposing appropriate solutions. The team is organized by geographic region and collaborates within BDC to provide value-added solutions and services to entrepreneurs.
2. Pillar team—responsible for identifying and developing advisory solutions and for delivering

mandates to entrepreneurs with a balanced combination of internal and external resources.

3. Strategy and operations support team—a centralized operations support group that provides an efficient, standardized approach to solution deployment and consulting resource management, including qualifying, on-boarding and developing the partner network.

Solutions will be designed to help SMEs:

- > drive growth, for example, through sales and marketing, innovation and developing new markets
- > improve agility and productivity, for example, through lean concepts, process improvements and technology adoption and development plans
- > build organizational capabilities, for example, through coaching, strategy planning, HR management, implementing business management practices and advisory boards

BDC Consulting is also enhancing its internal business capabilities by making its project delivery more efficient, enhancing the quality of delivery, focusing on segments where it can create the most impact, and continuously innovating its solution offering.

To ensure the changes being implemented align with the goal of creating impact for clients, BDC Consulting plans to measure results with financial and non-financial metrics. It will assume the majority of costs associated with the delivery of advisory services, ensuring they are affordable to SMEs.

## Helping women grow their businesses

BDC addresses market gaps by supporting demographics that traditionally have difficulty accessing services, such as youth and Aboriginal entrepreneurs.

BDC believes that women entrepreneurs also can face unique challenges, especially in growing their business.

In Economic Action Plan 2014, the government indicated its intention to provide more support to women entrepreneurs. BDC has been working with government officials to develop a strategy aimed at women-owned businesses (defined as more than 50 percent ownership). As part of this work, BDC examined the characteristics of women-owned businesses in its portfolio, as well as women-owned businesses in the larger economy. Observations include:

- > self-employment among women is increasing at a faster rate than among men, but women are less likely to incorporate and hire so their businesses tend to start and stay small
- > women operate firms in industries less likely to experience high growth, such as retail, accommodation and food services

In general, women-owned firms lack scale, which means that they can pose more risk for lenders. BDC believes it can build on its understanding of women entrepreneurs and help more of them grow their businesses by:

- > capitalizing on existing BDC financing and advisory service solutions
- > creating an internal committee of employees with experience and knowledge of women entrepreneurs
- > solidifying partnerships and sponsorships with organizations targeting female-owned businesses at the regional and national levels
- > devising a communication strategy about how BDC helps women entrepreneurs
- > being more rigorous at tracking and mining data related to women-owned businesses



# Facilitating greater access to capital

## Being accessible to entrepreneurs

To ensure that it is able to help entrepreneurs across Canada, BDC frequently reviews the number and location of its offices and has launched an initiative aimed at increasing its reach, specifically in Western Canada and Ontario, where BDC believes that its presence should be better aligned with market realities. The initiative will entail opening new business centres and shared offices to ensure that entrepreneurs in these regions are not under-served; increasing BDC's profile and visibility through advertising and public relations; and strengthening relationships with stakeholders and partners in those regions.

In Ontario, BDC believes it can help improve the province's declining share of exports to the U.S., while encouraging SMEs to export to emerging markets. BDC will continue to support manufacturers and other sectors in Ontario hard hit by recent economic conditions. In Western Canada, BDC recognizes that there has been significant economic growth, which has increased the number of SMEs, some of which are supporting key sectors such as oil and gas, which could face challenges if oil prices remain depressed. BDC wants to ensure entrepreneurs in these regions have access to the resources they require to grow and succeed.

## Addressing emerging needs in growth capital

In response to changing market dynamics, BDC Venture Capital will build upon its strategy of direct and indirect investments, complemented by investments and partnerships in the VC ecosystem. It will do so by addressing a variety of emerging "white spaces", where promising Canadian companies are not ad-

equately supported by growth capital. For example, BDC VC will address an emerging imbalance between early and later-stage investing by considering ways to make more later-stage direct investments. It will also look for opportunities to invest indirectly in select later-stage funds that help growing Canadian companies reach their full potential.

There are also promising companies in important emerging sectors in Canada that lack the financial support required to compete on the world stage. BDC VC will address this by considering ways to provide more value-added financial support to these companies. This could include reaching into its existing indirect fund investments and supporting some of the "best and brightest" firms through a strategy known as "direct co-investment", where BDC supports these private-sector firms with additional direct investments.

BDC's Growth & Transition Capital portfolio also has a role to play in addressing emerging needs for growth capital among Canada's most promising firms, many of which exist outside of the technology sector and as such are not usually candidates for VC support. In growth capital, the following gaps have been observed:

- > later-stage technology and other asset-light businesses that don't fit a venture capital profile
- > small firms in sectors of less interest to private equity
- > family and privately controlled mid-sized firms facing succession issues and/or challenges in funding their development into a larger business
- > private firms that are unwilling to give up majority control to an outside private equity fund

- > smaller businesses needing small amounts of working capital that don't fit the profile of private-sector mezzanine or equity providers

To address these needs, BDC Growth & Transition Capital will increase its quasi-equity and equity investments, including prospective quasi-equity, which takes a forward-looking view of a company's potential versus looking at historical performance. With these types of solutions, BDC can increase the confidence of entrepreneurs to grow; extend the growth phase and domestic control of mid-sized firms; and fill a void for equity in the range of \$2 to \$10 million suitable for smaller firms.

As a development bank, BDC would position itself as a management-friendly "growth partner", sharing in the entrepreneur's vision as a long-term minority investor and tailoring solutions to the entrepreneur's needs. BDC will provide these higher-risk investments with the goal of creating more mid-sized companies from a variety of sectors capable of becoming Canadian champions.

## Immigrant Investor Venture Capital Pilot Program

Economic Action Plan 2014 proposed replacing the federal Immigrant Investor Program with a new Immigrant Investor Venture Capital pilot program. Under the proposed program, immigrant investors would be required to place a \$2-million, at-risk investment in a closed-end fund, which is expected to target an initial fund size of \$100 million.

In May 2014, the government appointed an expert panel to provide advice on the creation of the fund. Based on the panel's recommendations, the program will be managed by BDC Capital, the investment arm of BDC, and by participating fund managers. Discussions between the government and BDC on the bank's role will continue into 2015 as the program unfolds.

### New powers under the BDC Act

As a result of the 10-year legislative review, amendments to the BDC Act received Royal Assent on December 16, 2014. The amendments:

- > modernize the scope of management services and require that these services be complementary to those offered by the private sector
- > allow BDC to make loans or give guarantees to a corporation, trust, partnership or joint venture outside Canada, under limited circumstances
- > allow BDC to invest in investment funds or other investment vehicles legally established outside Canada that have an ongoing commitment to invest in Canada, under limited circumstances
- > allow BDC to provide financial services to not-for-profit organizations
- > modernize certain governance provisions

In addition, amendments to the BDC Act would allow BDC, through prescribed regulations, to:

- > extend credit or provide liquidity to SMEs
- > provide additional management services
- > make direct investments in a corporation, trust, partnership or joint venture outside Canada, under limited circumstances

BDC also recognizes that the “10-Year Legislative Review: 2001-2010”, tabled by the Minister of Industry on June 16, 2014, contains recommendations in four specific areas that could improve the impact of the BDC’s efforts going forward. These areas are:

- > extending more support to underserved markets
- > increasing accessibility and enhancing client service for SMEs
- > focusing on complementarity
- > enhancing performance measurement

BDC has already taken steps to increase its reach and visibility across Canada, improve the client experience and work toward better measuring its impact on entrepreneurs and the economy. Over the planning period, BDC will continue to take the recommendations of the review under consideration, while also exploring how best to use its expanded powers in support of Canadian SMEs, in collaboration with partners and other stakeholders. BDC will communicate with the government on its proposed use of the new powers and their impact.

# Summary of Initiatives

## Over the planning period, BDC will...

- > Gradually deploy a new initiative aimed at removing the barriers to competitiveness for high-impact firms in Canada (page 23).
- > Refine its offering of value-added advisory services designed to improve the competitiveness of SMEs (page 25).
- > Open new business centres and optimize online resources and partnerships to ensure its financing, investment and advisory service solutions are accessible and visible to entrepreneurs in Canada (page 27).
- > Increase its equity offering to address the needs of growth-oriented firms (page 23).
- > Invest and co-invest in a variety of promising Canadian technology companies from early to late stages while continuing to invest in its three internal direct investment funds (page 15).
- > Help support emerging fund models while ensuring that all types of funds are well-capitalized and able to support the growth of Canadian champions (page 27).
- > Play a role in the Immigrant Investor Venture Capital Pilot Program (page 28).
- > Support the government's intention to provide increased assistance to women-owned firms (page 26).
- > Explore options for strategies related to intellectual property.

## While continuing to...

- > Constantly evolve its offering of financing solutions to meet the needs of entrepreneurs.
- > Address market gaps for financing and advisory services, with a focus on small loans.
- > Provide educational tools and resources and offer awards programs recognizing Canadian entrepreneurs.
- > Make the most of online capabilities and indirect channels, including partnerships.
- > Offer solutions such as asymmetric and pari passu lending and syndicated transactions.
- > Offer ICT products and advisory services to help SMEs innovate and improve productivity.
- > Provide tailored support to important sectors such as aerospace and to high-growth firms.
- > Offer advisory services and financing to help SMEs explore new markets.
- > Offer flexible financing solutions to help companies grow and transition to new owners.
- > Implement the Venture Capital Action Plan (VCAP) and the Venture Capital Strategic Investment Plan (VCSIP) and a VC strategy designed to return the ecosystem to health and support innovative technology companies.

# Performance Measures

Entrepreneurship		Target F2015	F2015 YTD <sup>1</sup>	Target F2016
>	# of loans ≤\$500,000 for Financing and Growth & Transition Capital based on commitment size of ≤\$750,000	8,000	6,464	8,200
>	# of authorizations to new businesses (≤2 years) (Financing and Growth & Transition Capital)	1,500	1,720	2,000
>	% of BDC-financed start-ups that survive five years	65%	60% <sup>2</sup>	65%
>	% of very satisfied clients <sup>3</sup>	n/a	56%	57%
>	# of transactions authorized with and from partners (syndications, pari passu, loan referrals and alliances)	2,400	1,857	2,500
Productivity				
>	# of loans authorized for equipment purchase (Equipment Line and loans with “equipment purchase” as purpose)	2,000	1,312	1,750
Growth				
>	% of high-growth firms in BDC Growth & Transition Capital portfolio (high-growth firm defined as having annualized sales growth greater than 20% per year over a three-year period)	30%	32%	30%
Innovation				
>	Support for Digital Canada 150			
	– Financing: \$200M in acceptances annually to 2017	n/a	\$190.7M	\$200M
	– VC: \$300M in authorizations by 2017 (% of objective reached)	n/a	30%	60%
>	Venture capital return of capital (RoC)	1.00	1.04	1.01
Efficiency				
>	BDC Financing reported efficiency ratio <sup>4</sup>	39.7%	37.8%	38.7%

BDC strives to measure its impact on Canadian entrepreneurs. As a result, its performance measures continue to evolve to properly capture public policy impacts. Appendix D presents a new framework and proposed measures toward which BDC is working.

<sup>1</sup>Unless otherwise noted, fiscal 2015 YTD numbers are as at December 31, 2014

<sup>2</sup>Fiscal 2014—data available on an annual basis only

<sup>3</sup>“Very satisfied” clients gave a score of 9 or 10 out of 10 for overall satisfaction pertaining to BDC’s services

<sup>4</sup>A decreasing result indicates improved efficiency

# Index of Partners/Business Relationships

## PARTNERSHIPS

Accelerators	Various	BDC VC supports accelerators across Canada, including Extreme Startups, FounderFuel, GrowLab Ventures, Communitech Hyperdrive, Launch36, Execution Labs, Creative Destruction Lab
Canadian Technology Accelerator	CTA	Initiative managed by the Canadian Trade Commissioners Service that provides Canadian high-growth companies with support to access global markets. BDC connects top technology SMEs coming out of Canadian accelerators to the most relevant CTAs.
Community Futures Development Corporations	CFDC	CFDCs support community economic development. By working closely with CFDCs across Canada, BDC reaches entrepreneurs in areas where it does not have a physical location.
C100		BDC participates in this organization dedicated to supporting Canadian technology entrepreneurship and investment. Members include executives of Apple, Cisco, eBay, Facebook, Google, Microsoft and Oracle.
Department of Foreign Affairs, Trade and Development	DFATD	In 2011, BDC signed an agreement with DFATD to share business intelligence about global markets and collaborate on marketing. BDC and DFATD signed a strategic partnership in 2013 to expand the Canadian Technology Accelerator (CTA) program in the United States. Seven DFATD trade commissioners are co-located in BDC business centres across Canada.
Export Development Canada	EDC	BDC and EDC share an important relationship, including a two-way referral system that ensures Canadian companies access the services of the organization whose competencies best meet their needs. An MOU between BDC and EDC was finalized in late 2011.
Futurpreneur Canada		Futurpreneur is a national, non-profit organization that supports business owners aged 18 to 39. Futurpreneur and BDC collaborate to offer financing to young entrepreneurs.
National Angel Capital Organization	NACO	BDC works with NACO to strengthen Canada's angel investing community.
National Research Council—Industrial Research Assistance Program	NRC/IRAP	BDC is a partner in NRC/IRAP's Concierge service, which is a single access point to help entrepreneurs access support for growth.
Ontario Centres of Excellence	OCE	OCE help drive entrepreneurial growth in Ontario. BDC assists their clients in accessing financing.
TAO Asset Management	TAO	BDC partners with TAO in the securitization market to deliver the Funding Platform for Independent Lenders.



**STRATEGIC RELATIONSHIPS**

Aboriginal Affairs and Northern Development Canada	AANDC	BDC works with AANDC to provide debt financing to First Nations businesses across Canada with assets on a reserve.
Canadian Bankers Association	CBA	BDC maintains a sound working relationship with the CBA, which contributes to the development of public policy on issues that affect financial institutions.
Canadian Manufacturers and Exporters	CME	BDC and CME are building on a pilot project called Export Experts, a series of on-site workshops that highlight best practices in international trade.
Credit Union Central of Canada	Canadian Central	BDC maintains a sound working relationship with Canadian Central, the national forum for the Canadian credit union system.
FedDev Ontario	FedDev	BDC works with the federal economic development agency in southern Ontario to support entrepreneurs.
MaRS Centre for Impact	MaRS	Through MaRS, BDC increases its knowledge and involvement with social entrepreneurship.
National Research Council of Canada	NRC	BDC works with NRC and NSERC to increase opportunities for joint funding; improve access to complementary federal funding; improve access to investment capital; and, increase awareness of partnership opportunities and available funding programs.
Natural Sciences and Engineering Research Council of Canada	NSERC	
Small Industries Development Bank of India	SIDBI	SIDBI is the principal institution for the promotion, financing and development of micro, small and medium-size businesses in India. BDC and SIDBI signed a memorandum of understanding in 2013 to share knowledge and best practices.

**MEMBERSHIPS**

Association of Development Financing Institutions in Asia and the Pacific	ADFIAP	BDC partners with associations around the world such as ADFIAP and ALIDE to gain insight into foreign markets and assist Canadian businesses with their global expansion plans.
Latin American Association of Development Financing Institutions	ALIDE	
Canadian Venture Capital & Private Equity Association	CVCA	BDC maintains a sound working relationship with the CVCA, which is a leading source for advocacy and professional development for venture capital and private equity professionals.
Centre for Business Innovation	CBI	Part of the Conference Board of Canada, the CBI conducts research on how Canadian companies incorporate innovation into their operations. BDC is a member of the CBI.
Global Commerce Centre	GCC	Part of the Conference Board of Canada, the GCC examines issues related to trade and international business. BDC is a member of the GCC.
Lending Practitioners Forum		BDC participates in this initiative spearheaded by the Canadian Bankers Association that involves the major chartered banks and Export Development Canada (EDC).
QGI00		BDC participates in this private group of chief executive officers from Quebec that supports the development of global leaders.
The Montreal Group	TMG	Initiated by BDC, TMG is a global forum of state-supported financial development institutions. The goal is to encourage an exchange of ideas and best practices with the aim of assisting micro, small and medium-sized enterprises with their business challenges.

## Appendix A to the Corporate Plan: Governance

**Compliance** As a federal Crown Corporation, BDC is fully compliant in displaying the “Canada” wordmark in all of its corporate identity applications. BDC respects the *Official Languages Act* and its operations adhere to the regulations and policies implemented by the Treasury Board Secretariat, giving special attention to the economic and social development of minority official language communities.

**Governance** Within the context of its incorporating and governing legislation, its approved Corporate Plans, and specific instructions that it may be given by the Government of Canada, BDC operates at arm’s length from the government with ultimate accountability to Parliament through the Minister of Industry.

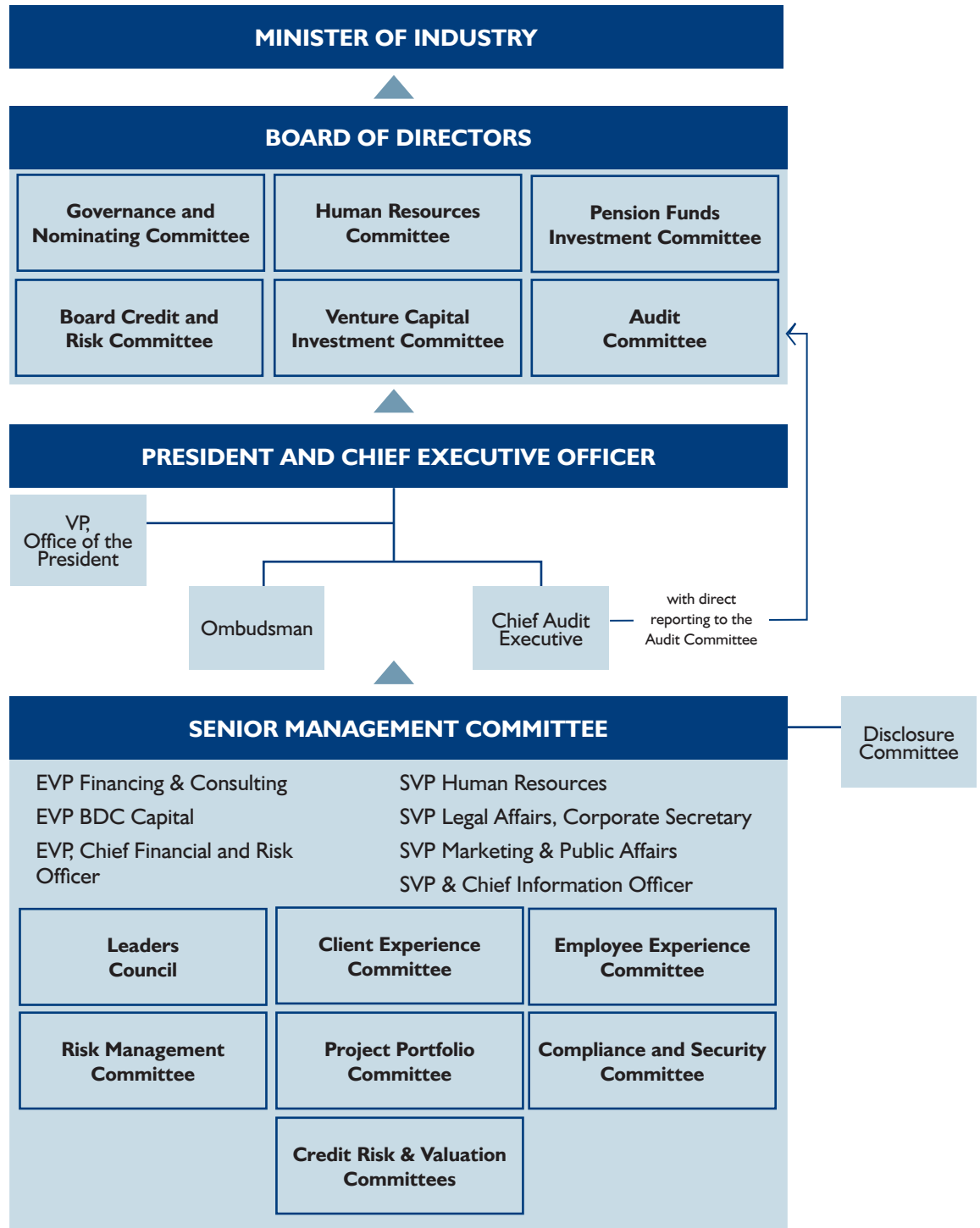
An independent Board of Directors, supported by various committees, ensures a high standard of corporate governance. BDC’s president and CEO sits on and reports to the Board. The Board’s duties are to:

- > approve BDC’s strategic direction and Corporate Plan to meet its public policy mandate;
- > set performance targets and monitor progress;
- > ensure that BDC is identifying and managing its risks;
- > ensure the highest standards of corporate governance;
- > establish compensation policies;
- > review and approve management’s succession plan and evaluate the performance of the president and CEO;
- > review BDC’s internal controls and management information systems;
- > oversee communications and public disclosure;
- > oversee BDC’s pension plans and establish its fund policies and practices;
- > approve financing and investment activities beyond management’s authority; and,
- > ensure that BDC is meeting the provisions of the BDC Act.

BDC’s internal structure includes the Senior Management Committee, which comprises the president and CEO, the executive financial and operating officers, and designated senior vice presidents. Its responsibilities include:

- > setting, recommending to the Board for approval and implementing the vision, corporate strategy, objectives, and priorities of BDC;
- > establishing and ensuring respect for sound risk management practices;
- > overseeing BDC’s disclosure obligations and practices;
- > allocating enterprise-wide resources; and,
- > reporting and making recommendations to the Board.

## BDC governance structure



# Board Committees

## Audit

This committee promotes an overall corporate culture of quality financial reporting and ethical behaviour. Its main duties are to:

- > review and advise the Board on financial statements before BDC discloses them to the public;
- > review financial disclosures;
- > review the adequacy and effectiveness of internal control, and, in particular, major accounting and financial reporting systems;
- > oversee BDC's standards of integrity and conduct;
- > oversee the process for disclosing wrongdoing;
- > give advice and recommendations about the appointments and terms of auditors and special examiners;
- > review the terms of engagement of auditors and special examiners who report directly to the committee and are accountable to the Board;
- > review and advise the Board on the audit of the annual financial statements, the scope of the special examination and the special examination report;
- > consider the appointment and work of the chief audit executive, who reports directly to the committee and administratively to the president and CEO; and,
- > review directors' and officers' expenses.

## Board Credit and Risk

This committee's main duties are to:

- > identify and manage BDC's principal risks;
- > regularly review the enterprise risk management policy and other policies concerning key risks, such as credit, market, strategic, reputational, operational and other principal risks;
- > review reports and indicators related to enterprise risk management, portfolio risk management, capital adequacy and treasury operations risks;
- > approve new business activities, except those related to venture capital;
- > periodically review the business continuity plan;
- > approve loans and transactions that exceed the delegated authorities of senior management; and,
- > review policies and guidelines related to the delegation of authority for all financial products, except venture capital products.

## Governance and Nominating

This committee helps the Board fulfill its corporate governance oversight responsibilities. Its main duties are to:

- > continually review best practices and regulations related to governance and, if necessary, recommend changes to BDC's approach;
- > review BDC's corporate governance policies, including the board code of conduct and the employee code of conduct, ethics and values;
- > annually assess the Board's compliance with these policies;
- > regularly review the mandates, structures and memberships of the Board and its committees;
- > develop selection criteria for the president and CEO position;
- > recommend candidates for the president and CEO position, as well as directors;
- > review and annually approve the list of skills required by directors;
- > develop processes to assess the performance of the Board, its committees and its individual members; and,
- > ensure that comprehensive director orientation and continuous training programs are in place.

## Human Resources

This committee's main duties are to:

- > oversee the human resources strategy to ensure it is aligned with the Corporate Plan;
- > review — and, if appropriate, recommend to the Board for approval — the CEO's recommendations for appointments of senior management committee members, the chief audit executive and the ombudsman;
- > set and assess the CEO's objectives and performance;
- > review compensation for senior executives;
- > review and approve the design of compensation programs and material payments;
- > approve performance measures and metrics;
- > receive and examine actuarial evaluation reports and financial statements related to BDC pension plans, as well as recommend funding contributions; and,
- > ensure there is a valid succession plan in place.

## Pension Funds

This committee's main duties are to:

- > monitor and advise the Board on all matters related to the investment of the funds' assets;
- > recommend asset allocation and investment policies and strategies;
- > ensure that investments comply with established policies;
- > recommend to the Board the appointment, termination and replacement of external investment managers; and,
- > monitor the performance of these managers.

## Venture Capital Investment

This committee's duties are to:

- > regularly review the venture capital investment policy and other policies and processes for venture capital activities and related risks;
- > approve the business plan of the three venture capital internal funds, as well as investment strategies and guardrails;
- > review strategic initiatives aimed at improving the venture capital ecosystem;
- > review and recommend capital allocations for the internal funds;
- > review and recommend delegations of authority;
- > monitor portfolio performance; and,
- > approve investments that exceed the delegated authorities of senior management.

## Appendix B to the Corporate Plan: Risk Management

A strong risk management culture enables BDC to take appropriate risks while offering relevant services to entrepreneurs. BDC manages risk through formal risk review processes, which include a Board-approved risk appetite statement, risk policies and delegated authorities and limits.

The risk appetite statement enables BDC to articulate and monitor its risk profile against defined risk appetite limits, taking action as needed to maintain a balance of risk and return. The statement is based on qualitative and quantitative measures that demonstrate the Board's vision for managing the risks that BDC is willing to accept in the execution of its mandate.

The Internal Audit Department promotes sound risk management practices. Through its annual audit plan, the department works to ensure that BDC follows these practices. BDC's Legal Affairs department also plays a role in managing risk by ensuring compliance to various legal obligations and by establishing an employee code of ethics and values.

BDC's three risk management functions are enterprise risk management (ERM), credit risk manage-

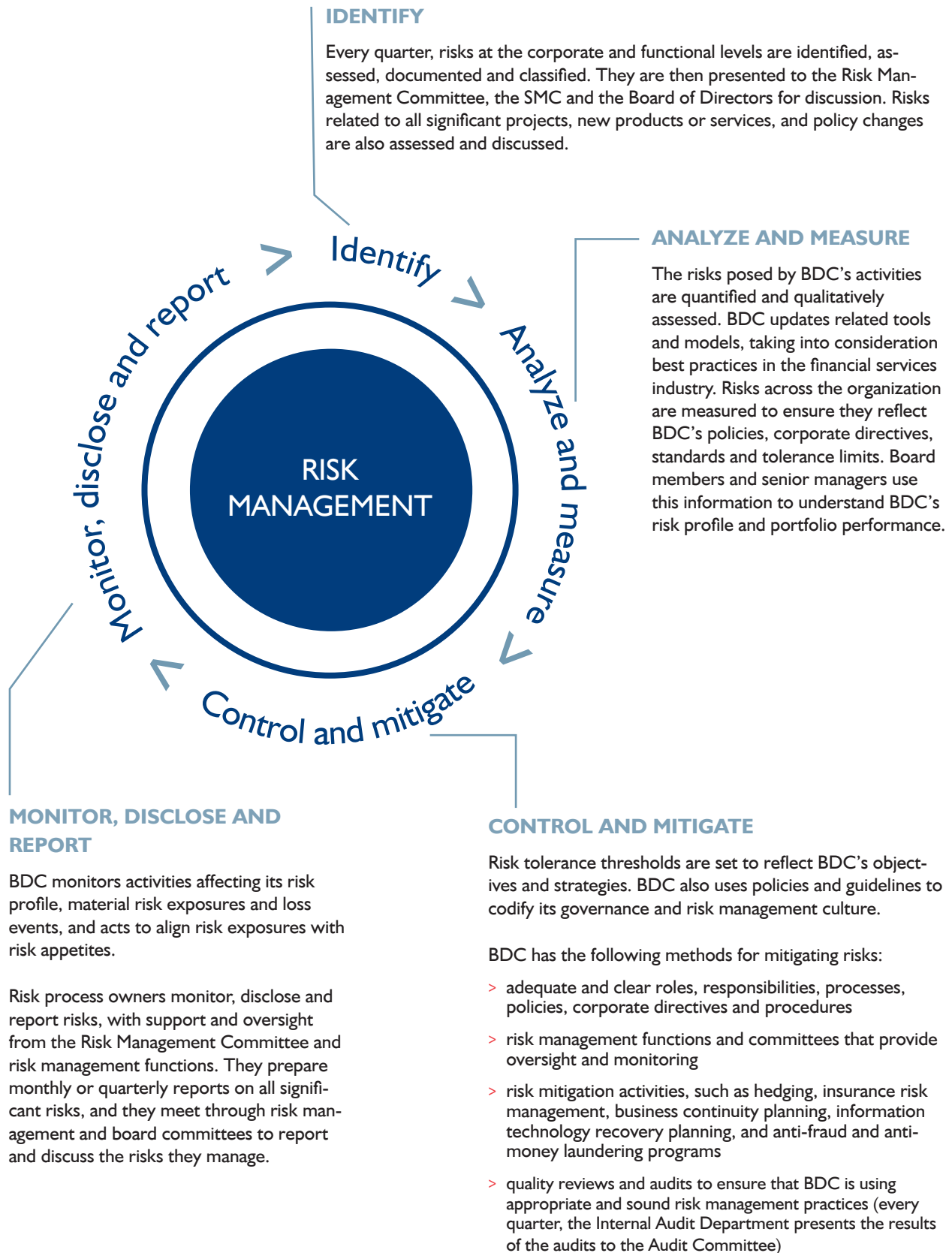
ment (CRM) and portfolio risk management (PRM), which includes treasury risk management. These three functions:

- > ensure that BDC applies sound risk management principles, appropriate policies and corporate directives to manage significant and emerging risks, according to risk thresholds outlined in the risk appetite statement;
- > develop tools to measure, monitor and report on these risks; and,
- > provide timely and complete reports on these risks to the organization's risk management committees, the senior management committee and the Board.

Using an ERM framework protects BDC by managing risk exposure, resolving uncertainty and building reputational equity. It ensures that BDC makes risk-related decisions in a methodical, consistent way.

The ERM policy outlines the way BDC manages risk through a governance framework of Board and senior management committees, and by identifying and assessing significant risks, and managing them on an enterprise-wide basis.





## Appendix C to the Corporate Plan: Corporate Plan Performance Measures

BDC recognizes that its performance measures are important in allowing Parliamentarians and the public to gauge the impact of BDC activities on entrepreneurs and on the economy. In light of this, and mindful of the recommendations from the Minister's report on the legislative review of the BDC Act, BDC is working towards a new framework and measures to be incorporated in future Corporate Plans.

To respond to Treasury Board guidelines and in light of the recommendations made by the Minister of Industry as part of the legislative review, BDC proposes using three categories for the performance measures that appear in its Corporate Plan.

**Core measures**—Measures central to BDC's mandate that would remain the same from year to year, ensuring continuity, and for which annual targets would be set. Examples include number of small loans, number of mid-sized firms in BDC's portfolio, and percentage growth in the number of financing transactions with partners. In this way, BDC would reflect the basic tenets of its mandate, including support for small and medium-size businesses, complementarity, client experience and financial sustainability.

**Initiative measures**—Measures related to specific initiatives, such as Digital Canada 150 or the Venture Capital Strategic Investment Plan (VCSIP), that would reflect evolving priorities and allow latitude for change within the measures. Annual targets would be set. Examples include ICT interventions.

**Impact measures**—Measures that would demonstrate the public policy role of BDC and its impact on clients and the economy. These measures would be tracked annually, but an annual target would not be set; instead, a five-year "goal" would be identified. Examples include percentage of clients who said BDC had a positive impact on their business following the services they received, and percentage of clients who found that BDC helped them expand to new markets.

BDC is working toward presenting a new framework and measures in Corporate Plan 2017-2021, and will continue to work with the government to ensure the relevance and viability of its approach.

## Financial Plan

The Financial Plan is based on the following assumptions regarding economic conditions:

- > Modest acceleration of the global economy is expected in coming years.
- > In January 2015, the Bank of Canada estimated that the lower price of oil will take one-third of a percentage point off Canadian GDP growth in 2015.
- > Long-term economic growth potential in Canada is expected to be weaker than before the recession at slightly more than 2 percent annually, due to an aging population and lagging productivity.
- > In the U.S., the expansion of the economy should continue.
- > A more robust U.S. economy should continue to benefit Canadian exports.
- > Improved export opportunities should lead to more business investment.
- > Credit conditions should remain favourable to Canadian businesses, however, firms with fewer physical assets, that are more innovative, or that are start-ups continue to have the most difficulty accessing financing.

## BDC Financing

BDC Financing plays an important role in facilitating access to capital for entrepreneurs and supporting the competitiveness of SMEs. Over the planning period and in line with its complementary role, BDC Financing will continue to assist small businesses, including those that have difficulty accessing financing due to location, sector or demographic. It is maintaining a focus on small loans, often for less than \$250,000, to help entrepreneurs buy equipment to increase productivity, innovate through ICT, and grow and explore new markets. BDC's commitment to small loans is paying off, with 8,010 small loans authorized in fiscal 2014, well above the Corporate Plan target of 6,500.

Given strong credit conditions, BDC Financing will continue to facilitate access to capital for SMEs by collaborating with other financial institutions, which includes providing support to medium-size firms and participating in larger transactions through syndication.

In fiscal 2015, BDC embarked on an initiative to increase its reach and visibility, specifically in Western Canada and Ontario, where BDC feels that its geographic presence should be better aligned with market realities. The initiative will entail opening new business centres and shared offices to ensure that entrepreneurs in these regions are not under-served; increasing BDC's profile and visibility through advertising and public relations; and strengthening relationships with stakeholders and partners. This initiative is not only about reaching more entrepreneurs, but also about providing value-added support

to have a real impact on the growth and success of Canada's SMEs.

To reflect these efforts, BDC Financing has increased its forecast for the number of acceptances. In dollars, acceptances are expected to increase to \$4.8 billion in fiscal 2016, and in numbers to 11,900.

As a result, the BDC Financing portfolio is forecast to grow to \$20.4 billion in fiscal 2016.

BDC has reduced its provisions for credit losses compared to last year's Corporate Plan, which will contribute to rising net income over the period, even with the investments to implement the reach and visibility initiative. However, as can be seen in Table 4, the provision for credit losses as a percentage of the average outstanding portfolio increases, reflecting current volatility in oil prices and the potential impact on economic growth. As of fiscal 2017, BDC expects the provision to stabilize at a level representative of the somewhat higher risk being assumed by BDC.

Net income for BDC Financing in fiscal 2015 is estimated at \$475 million, higher than last year's Corporate Plan forecast due mainly to lower provisions.

As a result of BDC's efforts to reduce costs and find efficiencies, including through its Agility & Efficiency (A&E) program, operating expenses as a percentage of the average portfolio decrease in the latter years of the planning period, even with the additional investments made in support of Canada's SMEs.

Table 1: Net Planned Acceptances (\$M)	Actual 2014	Estimate 2015	Proposed 2016
CP 2015-16 to 2019-20	4,102	4,600	4,800

Table 2: Net Planned Acceptances (#)	Actual 2014	Estimate 2015	Proposed 2016
CP 2015-16 to 2019-20	10,976	11,200	11,900

Table 3: Portfolio Outstanding (\$M)	Actual 2014	Estimate 2015	Proposed 2016
CP 2015-16 to 2019-20	17,815	19,100	20,433

Table 4: Net Income (\$M)	Actual 2014	Estimate 2015	Proposed 2016
<b>Net interest income</b>	<b>830</b>	<b>884</b>	<b>958</b>
Fee and other income	15	15	16
Net realized gains (losses) on other financial instruments	1	1	—
<b>Net revenue</b>	<b>846</b>	<b>900</b>	<b>974</b>
Provision for credit losses	(73)	(83)	(138)
Net unrealized gains (losses) on other financial instruments	—	(2)	(1)
<b>Income before operating and administrative expenses</b>	<b>773</b>	<b>815</b>	<b>835</b>
Operating and administrative expenses	339	340	377
<b>Net income</b>	<b>434</b>	<b>475</b>	<b>458</b>
<b>As a % of average outstanding</b>			
Net interest income	4.8	4.8	4.8
Fee and other income	0.1	0.1	0.1
Net realized gains (losses) on other financial instruments	—	—	—
<b>Net revenue</b>	<b>4.9</b>	<b>4.9</b>	<b>4.9</b>
Provision for credit losses	(0.4)	(0.5)	(0.7)
Net unrealized gains (losses) on other financial instruments	—	—	—
<b>Income before operating and administrative expenses</b>	<b>4.5</b>	<b>4.4</b>	<b>4.2</b>
Operating and administrative expenses	2.0	1.9	1.9
<b>Net income</b>	<b>2.5</b>	<b>2.5</b>	<b>2.3</b>
<b>Average portfolio outstanding</b>	<b>17,222</b>	<b>18,372</b>	<b>19,802</b>

## BDC Securitization

By partnering with private-sector financing companies in securitization, BDC ensures that smaller financing companies can remain active in the market and able to provide financing for the vehicle and equipment needs of businesses and consumers, ultimately helping SMEs improve their productivity.

BDC partners with TAO Asset Management to offer the Funding Platform for Independent Lenders (F-PIL). Under this program, BDC Securitization forecasts authorizations of \$450 million in fiscal 2016.

Since F-PIL involves fewer deals for larger amounts, authorizations can be difficult to forecast and can fluctuate throughout the planning period. Net income is forecast to be lower than last year's Corporate Plan, at \$3 million in fiscal 2016. Operating and administrative expenses remain stable through the planning period.

As at March 31, 2014, 7,012 SMEs had benefited indirectly from this program. BDC will continue to monitor and address the needs of smaller financing companies in the securitization market to ensure liquidity for SMEs.

<b>Table 5: Securitization (\$M)</b>	<b>Actual 2014</b>	<b>Estimate 2015</b>	<b>Proposed 2016</b>
Authorizations	(175)	315	450
Disbursements	200	207	231
Portfolio at cost	334	405	457
Fair value allowance	2	2	3
<b>Portfolio at fair value</b>	<b>336</b>	<b>407</b>	<b>460</b>
<b>Net revenue</b>	<b>8</b>	<b>6</b>	<b>5</b>
Operating and administrative expenses	2	2	2
<b>Net income</b>	<b>6</b>	<b>4</b>	<b>3</b>

## BDC Growth & Transition Capital

BDC Growth & Transition Capital, formerly BDC Subordinate Financing, offers cash flow, mezzanine, and quasi-equity financing to larger, more mature and growing firms with market traction, strong management and sound financial reporting. Where appropriate, BDC offers equity solutions by investing in a minority ownership stake of the company.

These types of higher-risk financing solutions can be a powerful fuel for firms experiencing rapid growth and useful for entrepreneurs planning management succession. They are suited to businesses with few tangible assets and entrepreneurs who don't want to dilute their ownership of the business.

To further address the needs of entrepreneurs for higher-risk growth capital, BDC Growth & Transi-

tion Capital will offer more equity and quasi-equity, including prospective quasi-equity, which takes a forward-looking view of a company's potential versus looking at historical performance.

The forecast for acceptances is in line with last year's Corporate Plan, increasing to \$240 million in fiscal 2016, bringing the portfolio at fair value to \$732 million. Over the following years, BDC expects operating and administrative expenses as a percentage of the average outstanding portfolio to decrease.

Due to growth in the portfolio and improved efficiency, net income for BDC Growth & Transition Capital is expected to increase and is higher than forecast in last year's Corporate Plan. Net income is expected to be \$34 million in fiscal 2016.



<b>Table 6: Growth &amp; Transition Capital (\$M)</b>	<b>Actual 2014</b>	<b>Estimate 2015</b>	<b>Proposed 2016</b>
Acceptances (#)	126	165	164
Acceptances (\$)	187	220	240
Growth (%)	(1.4%)	17.6%	9.1%
<b>Portfolio at fair value</b>	<b>577</b>	<b>635</b>	<b>732</b>
<b>Net interest income</b>	<b>50</b>	<b>51</b>	<b>62</b>
Net realized gains (losses) on investments and write-offs	(6)	(26)	(26)
Fee and other income	22	25	24
<b>Net revenue</b>	<b>66</b>	<b>50</b>	<b>60</b>
Net fair value change	(17)	(10)	(21)
Fair value adjustments due to realized gains (losses) and write-offs	–	19	26
<b>Income before operating and administrative expenses</b>	<b>49</b>	<b>59</b>	<b>65</b>
Operating and administrative expenses	26	25	31
<b>Net income</b>	<b>23</b>	<b>34</b>	<b>34</b>
<b>Net income attributable to:</b>			
BDC's shareholder	16	32	34
Non-controlling interests	7	2	–
<b>Net income</b>	<b>23</b>	<b>34</b>	<b>34</b>
<b>As a % of average outstanding</b>			
<b>Net interest income</b>	<b>8.6</b>	<b>8.2</b>	<b>8.9</b>
Net realized gains (losses) on investments and write-offs	(1.0)	(4.2)	(3.7)
Fee and other income	3.8	4.0	3.5
<b>Net revenue</b>	<b>11.4</b>	<b>8.0</b>	<b>8.7</b>
Net fair value change	(2.9)	(1.6)	(3.0)
Fair value adjustments due to realized gains (losses) and write-offs	–	3.0	3.7
<b>Income before operating and administrative expenses</b>	<b>8.5</b>	<b>9.4</b>	<b>9.4</b>
Operating and administrative expenses	4.5	4.0	4.5
<b>Net income</b>	<b>4.0</b>	<b>5.4</b>	<b>4.9</b>

\*Non-controlling interests are in AlterInvest Inc., AlterInvest L.P. and AlterInvest II L.P.

## BDC Venture Capital

BDC VC's strategy of direct and indirect investing complemented by innovative work in the VC ecosystem has made progress in supporting Canadian technology companies and returning the VC market to health.

BDC VC's three internal direct investment funds emulate the best practices of the private sector and are focused on building leading Canadian technology businesses in the IT, health-care, and industrial/clean/energy-tech sectors. Each fund was "seeded" with promising companies from BDC's legacy portfolio that meet the objectives of the respective fund strategies. The remaining direct legacy investments are being managed within BDC VC's Diversified Portfolio.

BDC VC's indirect, or fund of funds, approach is focused on building and supporting at-scale, world-class Canadian VC funds. This is being done with larger commitments by BDC VC to private-sector funds that have a clear sector focus and recognized expertise. BDC VC will use its indirect investments to complement those made by the Venture Capital Action Plan (VCAP) to help ensure the success of the program. BDC VC is also invested in GO Capital, a fund designed to support the creation of companies in all sectors of science and technology in Quebec. GO Capital's investment period is complete and it will only invest to support its existing portfolio.

To help rebuild the VC ecosystem, BDC VC created the Strategic Investments and Partnerships (SIP) team. It is developing innovative initiatives to reinforce key areas of the ecosystem and making direct and indirect investments that fill financing gaps, focusing on early stage investments, angels and accelerators.

Over the planning period, BDC VC will build upon its existing strategy to address evolving needs in the VC market by:

- > Supporting a variety of technology companies—BDC VC will complement investments made by its three sector-specific internal funds by making direct "development" investments, including co-investments, in companies from other sectors with the potential to contribute to the economy.
- > Supporting both early and late-stage investing—BDC VC has noted the emergence of new fund models and emerging managers raising small funds of less than \$50 million. This could result in a situation where early stage capital is insufficiently balanced by later-stage capital. To address this, BDC VC will look for opportunities to do more later-stage investing, including through its three internal funds, while also supporting less traditional funds in emerging sectors through its indirect investments.

Largely as a result of increased activity in direct investing, the forecast for authorizations is higher than last year's Corporate Plan. As the portfolio matures over the planning period, BDC VC expects more exits. This should result in disbursements being almost equally matched by proceeds and relatively stable cash flow. The portfolio at fair value is expected to increase due to strong investments, lower expected write-offs and fair value depreciation.

It should be noted that the risk associated with estimating proceeds is significant as the value and timing of exits are difficult to predict.

BDC VC's forecast for net income has improved from last year's Corporate Plan. As mentioned, it is difficult to forecast the timing and value of exits and the amount and timing of fair value changes. While BDC is optimistic about the direction of its strategy over the planning period, these factors may cause significant variation from plan.

<b>Table 7: Venture Capital - Authorizations (\$M)</b>	<b>Actual 2014</b>	<b>Estimate 2015</b>	<b>Proposed 2016</b>
Diversified	9	9	5
GO Capital	4	5	–
Healthcare	6	25	24
IT	22	19	26
Industrial, Clean and Energy Technology	11	21	15
Development Investments	–	–	5
SIP (Strategic Investments and Partnerships)	–	–	–
VCSIP (Venture Capital Strategic Investment Plan)	6	9	7
<b>Direct investments</b>	<b>58</b>	<b>88</b>	<b>82</b>
Fund of funds	67	75	100
SIP	14	12	15
VCSIP	16	10	13
<b>Indirect investments</b>	<b>97</b>	<b>97</b>	<b>128</b>
<b>Total authorizations</b>	<b>155</b>	<b>185</b>	<b>210</b>

<b>Table 8: Venture Capital - Net Investing Activity and Portfolio (\$M)</b>	<b>Actual 2014</b>	<b>Estimate 2015</b>	<b>Proposed 2016</b>
Proceeds	97	40	90
Disbursements (excludes operating and administrative expenses)	(118)	(151)	(138)
<b>Net investing activity</b>	<b>(21)</b>	<b>(111)</b>	<b>(48)</b>
Portfolio at cost	535	625	665
Portfolio at fair value	495	613	668
Fair value / cost	93%	98%	100%

<b>Table 9: Net Income (\$M)</b>	<b>Actual 2014</b>	<b>Estimate 2015</b>	<b>Proposed 2016</b>
Net realized gains (losses) on investments	42	(1)	14
Write-offs	(61)	(20)	(22)
<b>Net realized gains (losses) on investments and write-offs</b>	<b>(19)</b>	<b>(21)</b>	<b>(8)</b>
Fee and other income	4	2	2
Net realized gains on other financial instruments	(9)	–	–
<b>Net revenue (loss)</b>	<b>(24)</b>	<b>(19)</b>	<b>(6)</b>
Net fair value change	(27)	4	(4)
Fair value adjustments due to realized gains (losses) and write-offs	47	21	20
Net unrealized foreign exchange gains (losses) on investments	15	3	–
Net unrealized (losses) gains on financial instruments	–	(2)	–
<b>Income before operating and administrative expenses</b>	<b>11</b>	<b>7</b>	<b>10</b>
Operating and administrative expenses	23	22	24
<b>Net income (loss)</b>	<b>(12)</b>	<b>(15)</b>	<b>(14)</b>
<b>Net income (loss) attributable to:</b>			
BDC's shareholder	(11)	(13)	(13)
Non-controlling interests*	(1)	(2)	(1)
<b>Net income (loss)</b>	<b>(12)</b>	<b>(15)</b>	<b>(14)</b>

\*Non-controlling interests represent 80% of GO Capital net income

<b>Table 10: Net Income by Fund (\$M)</b>	<b>Actual 2014</b>	<b>Estimate 2015</b>	<b>Proposed 2016</b>
Healthcare	(18)	(4)	(3)
IT	17	(10)	(1)
Industrial, Clean and Energy Technology	(1)	8	(2)
Development Investments	–	–	–
<b>Direct internal investments</b>	<b>(2)</b>	<b>(6)</b>	<b>(6)</b>
Diversified	(10)	5	10
GO Capital	(2)	(5)	(2)
<b>Direct legacy investments</b>	<b>(12)</b>	<b>–</b>	<b>8</b>
<b>Total direct investments</b>	<b>(14)</b>	<b>(6)</b>	<b>2</b>
<b>Fund of funds</b>	<b>7</b>	<b>(2)</b>	<b>(13)</b>
<b>SIP (includes direct and indirect investments)</b>	<b>(5)</b>	<b>(4)</b>	<b>(3)</b>
<b>VCSIP (includes direct and indirect investments)</b>	<b>–</b>	<b>(3)</b>	<b>–</b>
<b>Net income (loss)</b>	<b>(12)</b>	<b>(15)</b>	<b>(14)</b>

## BDC Consulting

BDC believes that entrepreneurs need to take advantage of professional, qualified advisory services to grow, innovate, create efficiencies and ultimately become more competitive.

However, from its experience in the market, BDC has found that small business owners have unmet needs for a broad range of these services and often have trouble identifying and addressing their own requirements.

To address this market gap, BDC is investing in advisory services that will maximize impact on the competitiveness of Canadian entrepreneurs by

enabling them to take advantage of growth, productivity and innovation projects. In its role as a development bank, BDC will assume a portion of costs associated with the provision of such services, which often entails working with an external firm to provide the services to the entrepreneur. In this way, BDC leverages the private sector, helping to ensure the complementarity of its approach.

Revenue for BDC Consulting is expected to be \$19 million in fiscal 2016 and will continue to rise, reflecting increased reach in the marketplace. Net losses are expected to remain stable, reflecting increased efficiency and improved cost recovery.

Table II: Consulting (\$M)	Actual 2014	Estimate 2015	Proposed 2016
<b>Revenue from activities</b>	<b>22</b>	<b>17</b>	<b>19</b>
Delivery costs	10	8	11
<b>Margin</b>	<b>12</b>	<b>9</b>	<b>8</b>
Operating and administrative expenses	28	31	35
<b>Net income (loss) before transition costs</b>	<b>(16)</b>	<b>(22)</b>	<b>(27)</b>
Transition costs	1	3	3
<b>Net income (loss)</b>	<b>(17)</b>	<b>(25)</b>	<b>(30)</b>

## Support for High-Impact Firms

To help some of Canada's most promising firms contribute fully to the economy, BDC is proposing the gradual implementation of a new initiative that will facilitate access by these "high-impact" firms to the best solutions available at each stage of their development. With a strong pan-Canadian network of partners and a deep knowledge of entrepreneurs, BDC believes it can leverage its knowledge and expertise to further support high-impact firms, in collaboration with the public and private sectors.

This initiative is a significant one for BDC that will be funded from retained earnings. As an investment in SME competitiveness, the initiative is expected to incur a net loss of \$7 million in fiscal 2016.

Operating and administrative expenses will be com-

prised of salaries as well as investments in systems and tools and in strengthening and developing new partnerships required to support this initiative, in addition to standard operating costs and overhead.

It is important to note that, as this initiative is new to BDC and has yet to be operationalized, these forecasts and estimates are preliminary and will be reviewed as more details become known.

Also, while support for high-impact firms is presented as a separate segment in this Corporate Plan, BDC does not have sufficient information at this time to determine whether a separate segment is required under IFRS. It should be noted that reporting on this segment in this Corporate Plan may differ from upcoming annual reports.

Table 12: Support for High-Impact Firms (\$M)	Actual 2014	Estimate 2015	Proposed 2016
<b>Net revenue</b>	–	–	–
Impairment reversals (losses) on loans	–	–	–
Net change in unrealized appreciation (depreciation) of investments	–	–	–
Operating and administrative expenses	–	–	7
<b>Net income (loss)</b>	–	–	(7)

## Venture Capital Action Plan

Recognizing the importance of venture capital to Canada's economic prosperity, in Economic Action Plan 2012 the government announced \$400 million to help increase private-sector investment in early stage risk capital and to support the creation of large-scale VC funds led by the private sector.

In January 2013, the Prime Minister announced the Venture Capital Action Plan (VCAP), which will make available:

- > up to \$350 million to establish or recapitalize as many as four large funds of funds led by the private sector in partnership with institutional and corporate strategic investors, as well as interested provinces
- > an aggregate investment of up to \$50 million in existing high-performing VC funds in Canada

BDC was asked to carry out certain duties and functions to serve as the agent of government under VCAP and has created a small team dedicated to implementing this initiative.

The first stage in executing VCAP took place with the selection of four high-performing funds in the IT and life sciences sectors that have demonstrated strong investment performance and are aligned with the objectives of VCAP. The second stage of VCAP involved the selection of fund managers and negotiation of legal documentation surrounding the creation of new private-sector funds of funds. BDC expects three of the four VCAP funds of funds to be in active investment mode before the end of March 2015.

Disbursements commenced in fiscal 2014 with \$6 million for two of the high-performing funds and

one of the fund of funds. Through the issuance of common shares that are not included in the calculation of dividends, BDC received a capital injection of \$50 million in fiscal 2014. BDC expects a capital injection of \$150 million in fiscal 2016.

Due to a change in the methodology for calculating fair value, the net income forecast differs from that presented in last year's Corporate Plan. The new methodology of fair value is based on expected distributions from the funds determined from the net asset values. The result is that forecasted losses in fiscal 2015 are less than last year's Corporate Plan.

With \$387.5 million to be committed by BDC, it is expected that more than \$1 billion will be raised from other partners, for a total commitment of \$1.4 billion. However, it should be noted that the fundraising environment remains difficult.

Given the nature of the industry and that VCAP is in the early stages of implementation, it is difficult to forecast the overall financial performance of the program. BDC continues to collaborate with officials from Industry Canada and Finance Canada on operational details.

BDC supports the overarching goal of VCAP to encourage private-sector involvement in the VC asset class through a new source of funds and is committed to working with all the players involved to ensure the success of the program. BDC believes that the combined effect of VCAP, VCSIP and its own VC investing activities will have a significant positive impact on the VC market in Canada.



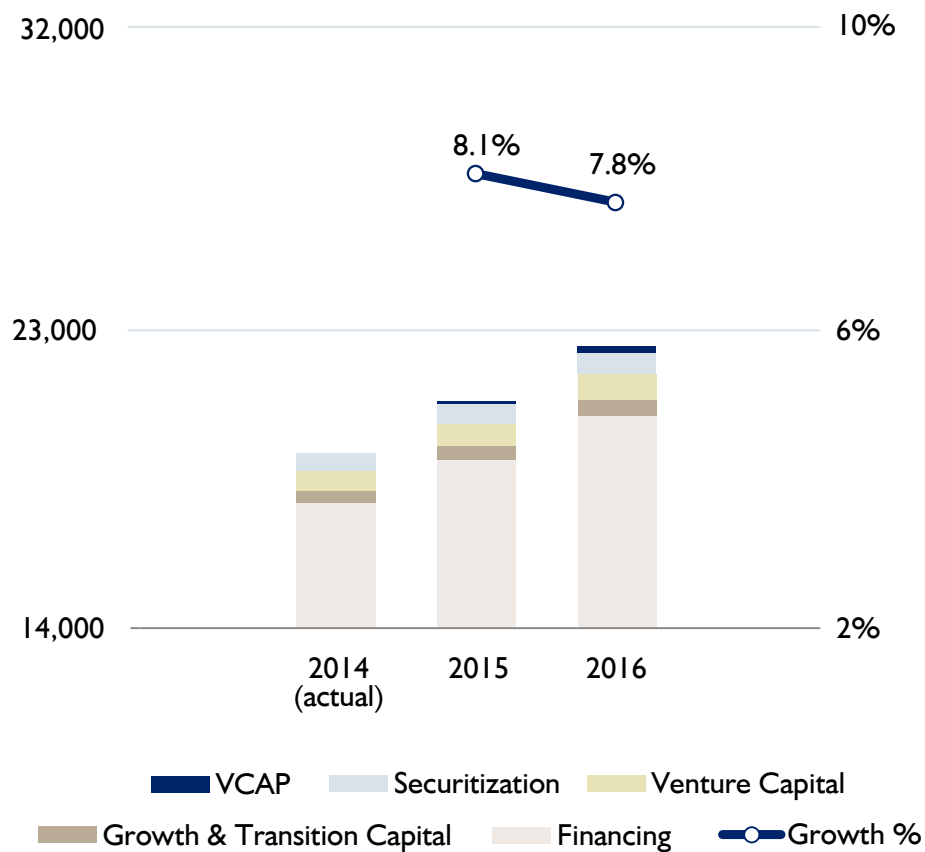
<b>Table I3: VCAP (\$M)</b>	<b>Actual 2014</b>	<b>Estimate 2015</b>	<b>Proposed 2016</b>
Authorizations	210	178	—
Disbursements	6	51	99
Proceeds	—	—	—
Portfolio at cost	6	57	156
<b>Portfolio at fair value</b>	<b>5</b>	<b>50</b>	<b>127</b>
<b>Net revenue</b>	<b>—</b>	<b>—</b>	<b>2</b>
Net fair value changes	(1)	(7)	(22)
<b>Income before operating and administrative expenses</b>	<b>(1)</b>	<b>(7)</b>	<b>(20)</b>
Operating and administrative expenses	1	1	1
<b>Net income (loss)</b>	<b>(2)</b>	<b>(8)</b>	<b>(21)</b>

## Consolidated Portfolio and Net Income

Table 14 shows the composition and growth of BDC's consolidated outstanding portfolio in dollars from fiscal 2014 to 2016. Growth of the portfolio increases to reflect the impact of the initiative to improve reach and visibility.

BDC consolidated net income is expected to be \$423 million in fiscal 2016. Consolidated net income will be impacted as BDC makes the investments required to support the competitiveness of Canadian SMEs, but remains at a financially sustainable level.

**Table 14: Consolidated BDC Portfolio—as at March 31 (\$M)**



<b>Table 15: Consolidated Net Income (\$M)</b>	<b>Actual 2014</b>	<b>Estimate 2015</b>	<b>Proposed 2016</b>
Financing	434	475	458
Securitization	6	4	3
Growth & Transition Capital	23	34	34
Venture Capital	(12)	(15)	(14)
Consulting	(17)	(25)	(30)
Support for High-Impact Firms	—	—	(7)
Venture Capital Action Plan	(2)	(8)	(21)
<b>Net income</b>	<b>432</b>	<b>465</b>	<b>423</b>
<b>Net income (loss) attributable to:</b>			
BDC's shareholder	426	465	424
Non-controlling interests	6	—	(1)
<b>Net income</b>	<b>432</b>	<b>465</b>	<b>423</b>

<b>Table 16: Consolidated Comprehensive Income (\$M)</b>	<b>Actual 2014</b>	<b>Estimate 2015</b>	<b>Proposed 2016</b>
<b>Net income</b>	<b>432</b>	<b>465</b>	<b>423</b>
<b>Other comprehensive income (loss)</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Net change in unrealized gains (losses) on cash flow hedges	(3)	—	—
<b>Total items that may be reclassified subsequently to net income</b>	<b>(3)</b>	<b>—</b>	<b>—</b>
<i>Items that will not be reclassified to OCI</i>			
Remeasurements of net post-employment benefit liability	53	(59)	—
<b>Other comprehensive income (loss)</b>	<b>50</b>	<b>(59)</b>	<b>—</b>
<b>Total comprehensive income</b>	<b>482</b>	<b>406</b>	<b>423</b>
<b>Total comprehensive income (loss) attributable to:</b>			
BDC's shareholder	476	406	424
Non-controlling interests	6	—	(1)
<b>Total comprehensive income</b>	<b>482</b>	<b>406</b>	<b>423</b>

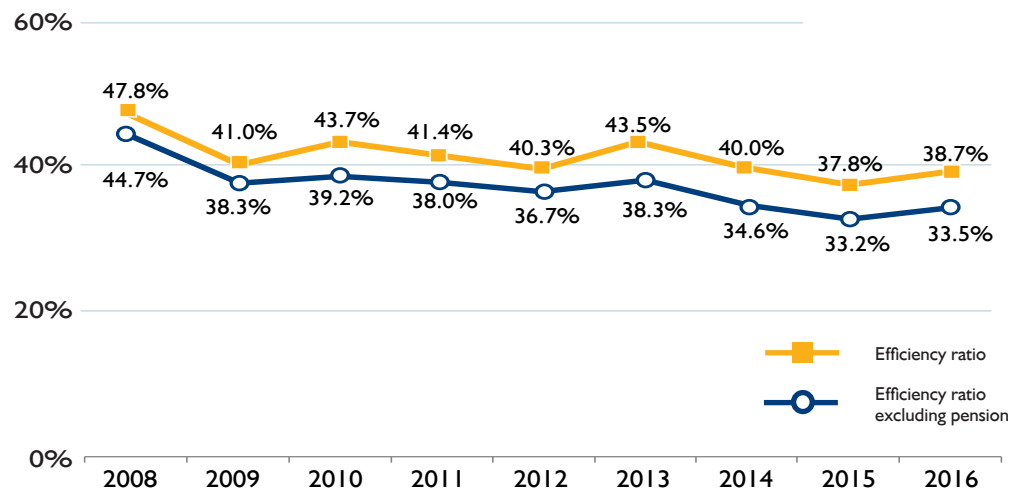
## Cost Containment and Efficiency Measures

Over the years, BDC has made a concerted effort to achieve efficiencies while fulfilling its role as a development bank and implementing government priorities. In fiscal 2015, BDC Financing expects to surpass the target for its reported efficiency ratio due to lower staff levels than anticipated and reduced costs in the areas of communication and meals, travel and accommodations made possible by investments in videophones, instant messaging, videoconferencing and voice-over-Internet protocol.

While it remains committed to ongoing improvements in efficiency, BDC expects to incur increased operating expenses related to initiatives such as its efforts to improve reach and visibility. Implementation of this initiative will result in an increase in fiscal 2016 in the efficiency ratio for BDC Financing, which is expected to decrease in the following years.

Table 17: BDC Financing Operating Expenses (\$M)	Actual 2014	Estimate 2015	Proposed 2016
<b>Total operating expenses</b>	<b>339</b>	<b>340</b>	<b>377</b>
Less:			
Pension expense	46	41	50
<b>Adjusted operating expenses (excluding pension)</b>	<b>293</b>	<b>299</b>	<b>327</b>
Reported efficiency ratio	40.0%	37.8%	38.7%
Adjusted efficiency ratio (excluding pension)	34.6%	33.2%	33.5%

Table 18: BDC Financing Historical Efficiency Ratio—as at March 31 (%)



## Capital Budget

In an effort to remain efficient and responsive to client needs, BDC invests in information technology and in its business facilities across Canada. Capital expenditures in IT are expected to be lower than anticipated with the adoption of cloud solutions as opposed to in-house application development. Combined with the fact that the implementation of the Agility & Efficiency (A&E) program is complete, capital expenditures are forecast to be lower than in past years.

## Projected Return on Common Equity

BDC is required to achieve a return on equity (ROE) at least equal to the government's long-term cost of capital. To meet this requirement, BDC follows the 10-year moving average returns for Government of Canada three-year bonds, which is currently 2 per cent.

For fiscal 2015, BDC expects its 10-year moving average ROE to be 9.1 per cent due to strong results in BDC Financing.

Table 19: Capital Budget (\$M)	Actual 2014	Estimate 2015	Proposed 2016
Facilities	1	4	5
Information technology	11	3	5
Agility & Efficiency (A&E)	24	—	—
<b>Total</b>	<b>36</b>	<b>7</b>	<b>10</b>

Table 20: ROE 10-year Moving Average (%)

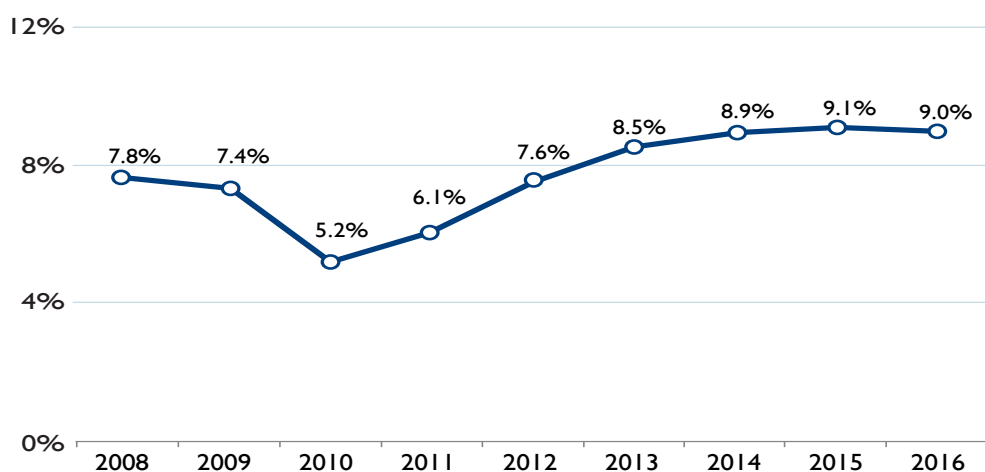


Table 21: Dividends (\$M)	Actual 2014	Estimate 2015	Proposed 2016
Dividends*	60	55	60

\*Common dividends are declared, booked, and paid in the following fiscal year

## Dividend Policy, Statutory Limitations and Capital Adequacy

### Dividend Policy

Common dividends are payable annually and fluctuate based on BDC performance. In fiscal 2016, BDC is forecasting dividend payments of \$60 million. BDC has paid \$237.4 million in dividends in the past five years (including a \$55-million payment in June 2014) to the Government of Canada.

### Statutory Limitations

The BDC Act requires that the aggregate of borrowings and contingent liabilities in the form of guarantees provided by BDC not exceed 12 times its equity. Growth in earnings should ensure that BDC will not exceed this statutory requirement over the planning period.

The debt-to-equity ratio is projected at 3.4:1 in fiscal 2015 and should move to 3.3:1 by fiscal 2016, well below the statutory limit. The total equity of BDC should increase from \$4.726 billion in fiscal 2015 to \$5.222 billion by the end of fiscal 2016.

BDC's paid-in capital limit was raised by the *Budget 2009 Implementation Act* to \$3 billion from \$1.5 billion, as originally set out in the BDC Act. BDC's paid-in capital is currently at \$2.166 billion, but will increase to \$2.516 billion following the capital injection required for VCAP.

### Capital Status

In line with its requirement for financial sustainability, BDC provides for an additional capital safeguard to help Canadian entrepreneurs withstand difficult economic conditions without requiring further investment by the Government of Canada. This approach

observes Treasury Board guidelines dated March 28, 1996, which state that, "the Bank maintain capital and loss provisions sufficient to ensure that BDC can withstand unfavourable economic circumstances without requiring additional government funding."

In a decision dated May 14, 2009, Treasury Board reconfirmed BDC's capital adequacy ratios (percentage of net portfolio assets) of at least:

- > 10 percent for term loans
- > 25 percent for quasi-equity loans (defined as venture loans, patient capital, working capital support program)
- > 100 percent for venture capital investments (including VCAP)
- > 10 percent of the fair value of F-PIL assets

BDC's available capital is expected to reach \$4.667 billion by the end of fiscal 2015. BDC's capital status under Treasury Board guidelines is expected to be \$1.708 billion in fiscal 2015. BDC believes it is also prudent to reserve capital for loans and investments already committed to entrepreneurs but not yet disbursed by BDC. These undisbursed amounts should represent \$665 million of capital by the end of fiscal 2015. In addition, BDC reserves capital for the investments it expects to make in its three internal VC funds and in VCSIP, for which the government requested that BDC set aside \$100 million of capital.

BDC also uses an economic capital model to manage risks by ensuring appropriate capital to support its current and future business and to safeguard its financial sustainability. The philosophy behind this model is to balance the requirement for BDC to fulfill its public policy mandate while remaining financially self-sufficient. It also provides a benchmark for the Treasury Board assessment guidelines.

**Stress Testing**

In keeping with industry practices and the core tenets of sound financial and risk management, particularly during times of uncertainty, BDC conducts enterprise-wide stress tests on its significant risks

and portfolios to determine an appropriate level of capital to withstand a sustained economic downturn. Specific scenarios are selected based on historical and estimated impact on the current portfolios.



### Appendix A to the Financial Plan

The following table presents BDC's financial highlight. In fiscal 2016, BDC expects total revenues of \$1.054 billion and a net income of \$423 million, of which \$424 million is attributable to BDC's shareholder.

<b>Table 22: Consolidated Statement of Income (\$M)</b>	<b>Actual 2014</b>	<b>Estimate 2015</b>	<b>Proposed 2016</b>
Interest income	1,020	1,087	1,316
Interest expense	132	146	291
<b>Net interest income</b>	<b>888</b>	<b>941</b>	<b>1,025</b>
Net realized gains (losses) on investments	(25)	(47)	(34)
Consulting revenue	22	17	19
Fee and other income	41	42	44
Net realized gains (losses) on other financial instruments	(8)	1	–
<b>Net revenue</b>	<b>918</b>	<b>954</b>	<b>1,054</b>
Provision for credit losses	(73)	(83)	(138)
Net change in unrealized appreciation (depreciation) of investments*	3	27	(1)
Net unrealized foreign exchange gains (losses) on investments	15	3	–
Net unrealized gains (losses) on other financial instruments	(1)	(4)	(1)
<b>Income before operating and administrative expenses</b>	<b>862</b>	<b>897</b>	<b>914</b>
Operating and administrative expenses	430	432	491
<b>Net income</b>	<b>432</b>	<b>465</b>	<b>423</b>
<b>Net income (loss) attributable to:</b>			
BDC's shareholder	426	465	424
Non-controlling interests	6	–	(1)
<b>Net income</b>	<b>432</b>	<b>465</b>	<b>423</b>

\*Includes net fair value change and fair value adjustment due to realized gains (losses) and write-offs

<b>Table 23: Total Revenues by Business Line (\$M)</b>	<b>Actual 2014</b>	<b>Estimate 2015</b>	<b>Proposed 2016</b>
Financing	846	900	974
Securitization	8	6	5
Growth & Transition Capital	66	50	60
Venture Capital	(24)	(19)	(6)
Consulting	22	17	19
Support for High-Impact Firms	—	—	—
Venture Capital Action Plan	—	—	2
<b>Net revenues</b>	<b>918</b>	<b>954</b>	<b>1,054</b>

<b>Table 24: Operating Budget - Expenses (\$M)</b>	<b>Actual 2014</b>	<b>Estimate 2015</b>	<b>Proposed 2016</b>
Financing	339	340	377
Securitization	2	2	2
Growth & Transition Capital	26	25	31
Venture Capital	23	22	24
Consulting (incl. delivery and transition costs)	39	42	49
Support for High-Impact Firms	—	—	7
Venture Capital Action Plan	1	1	1
<b>Total operating budget</b>	<b>430</b>	<b>432</b>	<b>491</b>
Operating expenses as a % of the average total loans and investments portfolio	2.3	2.2	2.3

<b>Table 25: Projected Statement of Cash Flows (\$M)</b>	<b>Actual 2014</b>	<b>Estimate 2015</b>	<b>Proposed 2016</b>
Net cash flows provided by operating activities	(957)	(805)	(797)
Net cash flows used in investing activities	(3)	(321)	(331)
Net cash flows provided by financing activities	935	1,160	1,222
<b>Net increase (decrease) in cash &amp; cash equivalents</b>	<b>(25)</b>	<b>34</b>	<b>94</b>
Cash & cash equivalents at beginning of year	702	677	711
<b>Cash &amp; cash equivalents at end of year</b>	<b>677</b>	<b>711</b>	<b>805</b>

<b>Table 26: Consolidated Statement of Financial Position (unaudited, in \$M)</b>	<b>Actual 2014</b>	<b>Estimate 2015</b>	<b>Proposed 2016</b>
<b>ASSETS</b>			
Cash and cash equivalents	677	711	805
Asset-backed securities	336	407	460
Loan Portfolio	17,749	19,095	20,423
Allowance for credit losses	(508)	(507)	(559)
Loan Portfolio (net)	17,241	18,588	19,864
Growth & Transition Capital investments	577	635	732
Venture Capital investments	495	613	668
Venture Capital Action Plan	5	49	126
	<b>18,654</b>	<b>20,292</b>	<b>21,850</b>
Post-employment benefit asset	84	21	35
Other assets	155	152	147
<b>Total assets</b>	<b>19,570</b>	<b>21,176</b>	<b>22,837</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Accounts payable and accrued liabilities	106	115	124
Short-term notes	14,057	15,511	16,860
Long-term notes	775	542	337
Borrowings	14,832	16,053	17,197
Post-employment benefit liability	188	222	229
Other liabilities	55	60	65
<b>Total liabilities</b>	<b>15,181</b>	<b>16,450</b>	<b>17,615</b>
<b>Equity</b>			
Share capital	2,138	2,138	2,288
Contributed surplus	28	28	28
Retained earnings at beginning of year	1,748	2,167	2,518
Net income	426	465	424
Remeasurements of net post-employment benefit liability	53	(59)	–
Dividends on common shares	(60)	(55)	(60)
Retained earnings	2,167	2,518	2,882
Accumulated other comprehensive income	5	5	5
<b>Equity attributable to BDC's shareholder</b>	<b>4,338</b>	<b>4,689</b>	<b>5,203</b>
Non-controlling interests	51	37	19
Total equity	4,389	4,726	5,222
<b>Total liabilities and equity</b>	<b>19,570</b>	<b>21,176</b>	<b>22,837</b>
Debt/Equity ratio	3.4	3.4	3.3

## Appendix B to the Financial Plan

### Future accounting changes

Information is provided below on new standards, amendments and interpretations to existing standards that are not yet effective but that are expected to impact BDC's financial results. BDC is currently assessing the impact of these changes on its consolidated financial statements.

#### IFRS 9—Financial Instruments

On July 24, 2014, the International Accounting Standards Board (IASB) issued the final version of *IFRS 9—Financial Instruments*, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace *IAS 39 Financial Instruments: Recognition and measurement* and all previous versions of IFRS 9. The final version amends classification and measurement of financial assets and introduces a new expected loss impairment model. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 and will be applied retroactively subject to certain exceptions.

Since 2008, the IASB has been working to replace IAS 39 and structured the project in three phases:

1. Classification and measurement of financial assets and financial liabilities
2. Impairment
3. Hedge accounting

The new standard introduces new presentation and extensive new disclosure requirements.

#### 1. Classification and measurement of financial assets and financial liabilities

IFRS 9 applies one classification approach for all

types of financial assets to determine whether the financial asset is measured at amortized cost or at fair value, based on both the entity's business model for managing the financial assets and the financial asset's contractual cash flow characteristics. IFRS 9 contains three principle classification categories for financial assets: amortized cost, fair value through other comprehensive income (FVOCI), and fair value through profit or loss (FVTPL). The existing IAS 39 categories of held-to-maturity, loans and receivables, and available-for-sale are removed.

#### 2. Impairment

IFRS 9 replaces the current "incurred loss" model in IAS 39 with an "expected credit loss" model. The new model applies to financial assets that are measured at amortized cost or FVOCI, such as loans, lease and trade receivables, debt securities, contract assets and most loan commitments and financial guarantee contracts. The model uses a dual measurement approach under which the loss allowance will be for either 12-month expected credit losses or lifetime expected credit losses, the latter applicable if credit risk has increased significantly since initial recognition. A simplified approach is available for trade and lease receivables and contract assets, allowing the recognition of lifetime expected credit losses at all times.

#### 3. Hedge accounting

The new standard carries forward the general hedge accounting requirements originally published in 2013. The objective is to more closely align the accounting with risk management activities. The IASB is continuing to work on its macro hedge accounting project.

## IFRS 15—Revenue from contracts with customers

On May 28, 2014, the IASB issued a new standard, *IFRS 15—Revenue from contracts with customers*, replacing *IAS 18—Revenue*. The new standard is effective for annual periods beginning on or after January 1, 2017.

The new revenue model applies to all contracts with customers except those that are within the scope of other IFRS standards, such as leases and financial instruments. The core principle of the standard is that an entity will recognize revenue when it transfers promised goods or services to customers in an

amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods and services.

The new standard establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. Extensive disclosures will be required, both qualitative and quantitative. The objective is to disclose sufficient information to enable the users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.